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THE GLOBAL **ECONOMIC SUPER CYCLE** IS OVER

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WRAPPER FUNDS

GAGU MATSEBULA WRITES VIA EMAIL:

I have been doing a bit of research into offshore exchange-traded funds (ETFs), and a couple of Vanguard products have caught my eye.

My conundrum now is how to actually purchase them, and I happened to stumble upon the concept of offshore wrappers. Are there any particular reputable companies one can approach? What should the fees reasonably be? Do they fare better when compared with offshore brokerage accounts?

SIMON BROWN RESPONDS:

Most of the local long-term insurers and investment houses offer offshore wrapper funds. Costs are very important as one is adding an extra layer of fees on top of the product and platform fees (and maybe even adviser fees). Ideally I would suggest the wrapper should charge less than 1% of the value being invested every year, lower of course is better.

You can also go the local route via the db X-trackers ETFs (from Deutsche Bank). The DBXUS that tracks the MSCI 600 (essentially the same as the S&P 500 index) trades on the JSE or via any of the platforms that offer ETFs. It is fully offshore in that your rands are converted to US dollars before buying the index, so you get exposure to both the US stocks and the currency.

TAX-FREE INVESTMENTS

WILLIAM THOM WRITES VIA EMAIL:

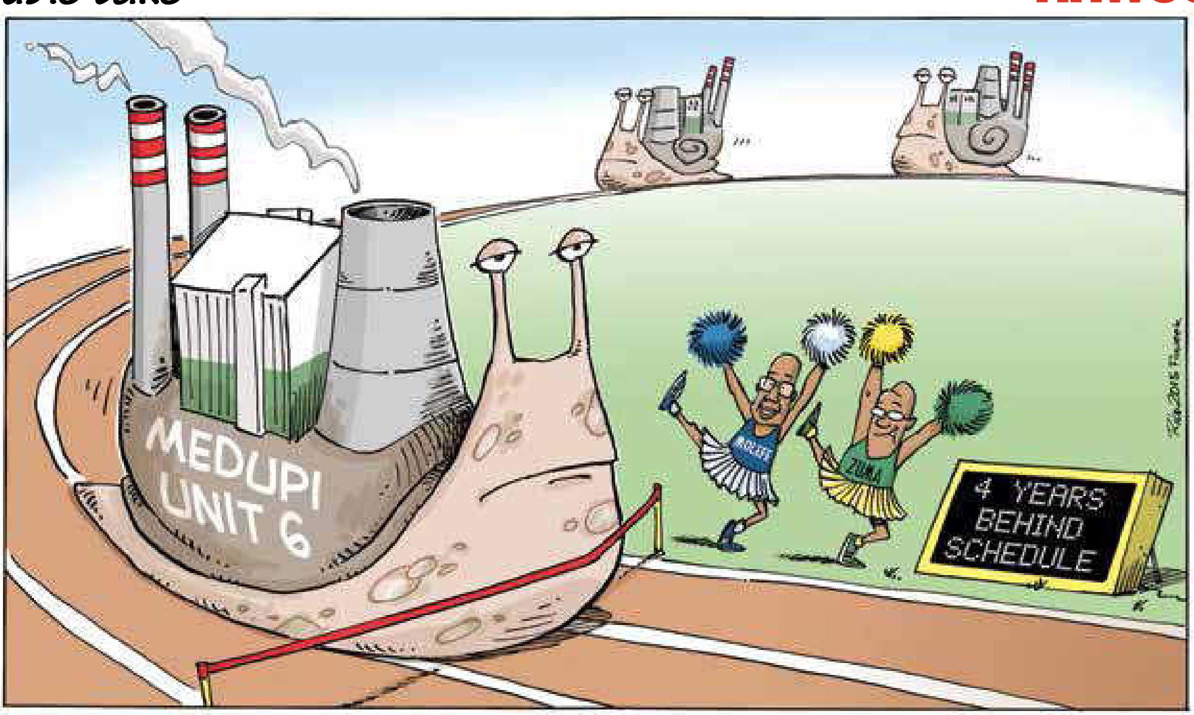
A few months ago, Simon Brown covered options of utilising tax-free investments. I have unfortunately misplaced the specific *Finweek* edition that covered this. I can recall that Simon split his initial (first year) investment of R30 000 up into two or three different investments and shared that he would adapt the weighting strategy in later years.

JANA MARAIS, *FINWEEK* EDITOR, RESPONDS:

In our 2 April edition Simon advised to open a tax-free savings brokerage account and invest in three ETFs: BBET40, DBXWD and PTXTEN. His first purchase was R15 000 of the first two. He aims to add PTXTEN next year, buying the three in equal tranches of R10 000 each. ■

Double take

finweek



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In Brief

CASHBUILD BOOMS

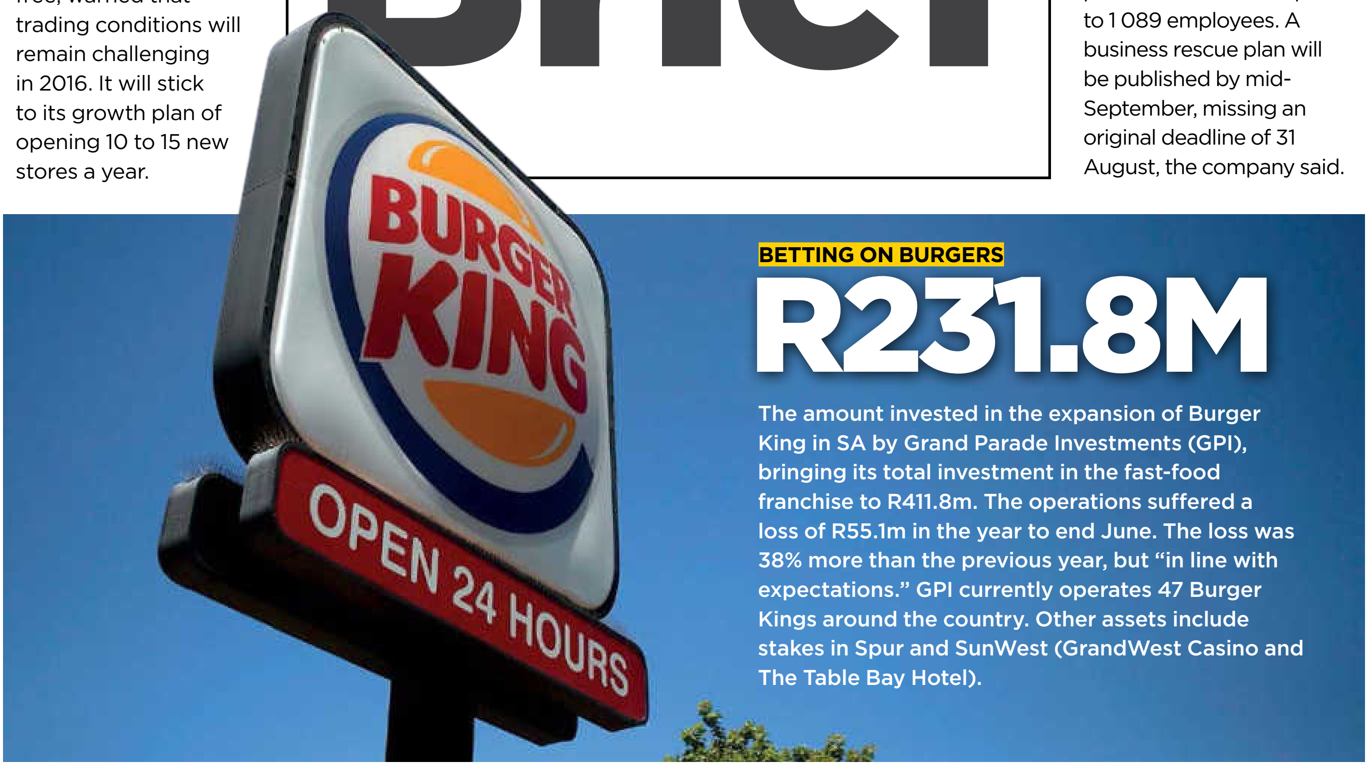
+35%

Building material retailer Cashbuild has boosted its total dividend for the year to end June by 35% to R7.12, after growing revenue 13%, and improving its profit margin. Cashbuild, which opened nine new stores in the year and remains debt-free, warned that trading conditions will remain challenging in 2016. It will stick to its growth plan of opening 10 to 15 new stores a year.

SAVING STEEL

3

The number of final binding offers received from bidders keen to buy the loss-making Evraz Highveld Steel & Vanadium, which entered business rescue proceedings in April. The steelmaker said in July it planned to retrench up to 1 089 employees. A business rescue plan will be published by mid-September, missing an original deadline of 31 August, the company said.



Justin Sullivan/Getty Images

BETTING ON BURGERS

R231.8M

The amount invested in the expansion of Burger King in SA by Grand Parade Investments (GPI), bringing its total investment in the fast-food franchise to R411.8m. The operations suffered a loss of R55.1m in the year to end June. The loss was 38% more than the previous year, but "in line with expectations." GPI currently operates 47 Burger Kings around the country. Other assets include stakes in Spur and SunWest (GrandWest Casino and The Table Bay Hotel).

AUSTRALIAN GROWTH SLOWS

+0.2%

Australia's economy grew by a mere 0.2% in the June quarter, half the rate expected by economists, guardian.com reported. Annual growth has slowed to 2%, substantially below its long-term average of 3% to 3.25%. Growth was affected by a decline in commodity prices and a drop in commodity exports because of port closures forced by bad weather, Australia's treasurer Joe Hockey said, adding that other commodity-based countries around the world are faring much worse.

SAMSUNG STRUGGLES

$4.8M

The loss in market value (R593.6bn) suffered by Samsung Electronics since April, equal to the market value of General Motors, according to Bloomberg. Samsung, the world's biggest smartphone vendor, has been struggling as sales of its newest Galaxy smartphones disappoint.
Its profit has fallen for five successive quarters, Bloomberg reported, and its global smartphone market share fell more than three percentage points in the second quarter.

BIDVEST WARNS ON SA

+9.2%

Industrial conglomerate Bidvest managed to grow its revenue in SA by 9.2% to R87.4bn in the year to end June, but warned that trading conditions are likely to remain tough in a low-growth environment. "Plummeting commodity markets created challenges for freight while other operations faced low business and consumer confidence, with sectors such as mining, manufacturing and construction under particular pressure," it said.

OIL COLLAPSE

$25?

Hedge fund manager Pierre Andurand, who predicted the 2008 oil spike and subsequent crash, told the *Financial Times* (FT) that the oil market will remain oversupplied in 2016 and 2017 and that oil can drop as low as $25 a barrel. While oil companies were slashing capital expenditure, the long lead times on most projects meant the impact would not be felt on supplies until around 2019, he told the FT. West Texas Intermediate (WTI), the US benchmark, is expected to trade between $25 and $50 over the next two years, he said.

THE GOOD

Durban will host the 2022 Commonwealth Games, the first time in the event's 85-year history that it will be hosted in Africa. While Canadian city Edmonton, a previous host, withdrew from the race citing cost concerns, backers of Durban's bid said 90% of the facilities were already in place, and that the event would boost tourism and jobs. The games could boost GDP by R11bn, according to government estimates. Let's hope government learnt valuable lessons when the country hosted the 2010 Soccer World Cup.

"With the ongoing power crisis and no solution in the foreseeable future, CEOs are losing confidence in their ability to secure debt or equity capital. Many CEOs believe the general public are not getting the full story behind the national power crisis and the true state of the power stations and their level of deterioration. The lack of information, transparency and government planning, together with the irregularity of power outages has made it increasingly difficult for CEOs to plan for the long term." – Merchantec Capital CEO Confidence Index, released on 2 September.

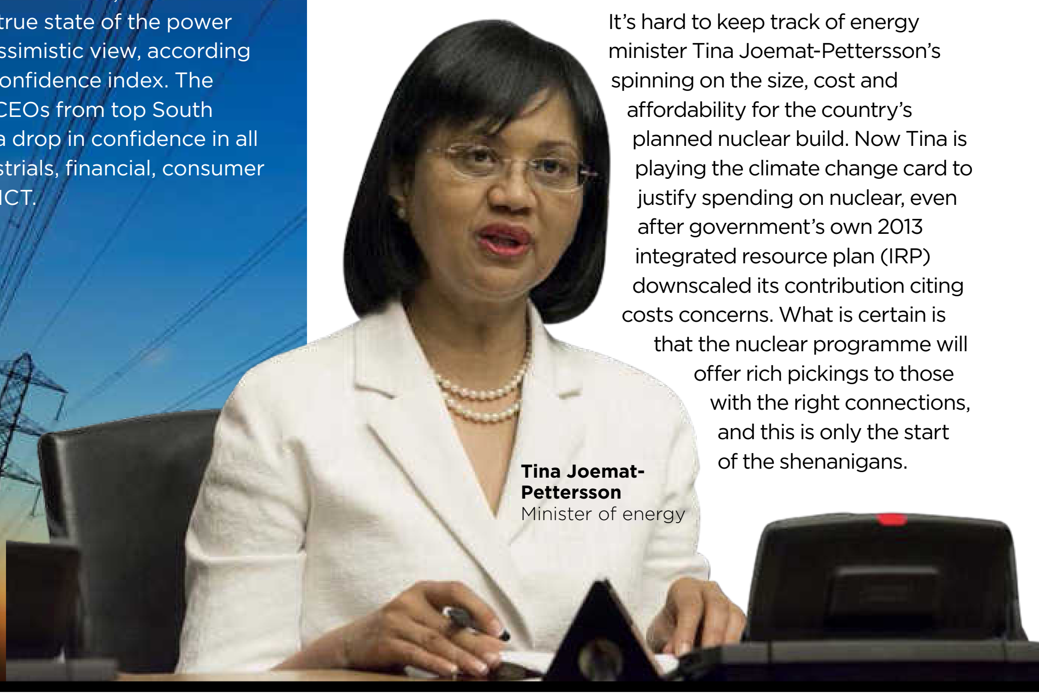
THE BAD

CEO confidence in South Africa has hit its lowest level since inception in the first quarter of 2009, with concerns over electricity supply and the true state of the power system contributing to their pessimistic view, according to the latest Merchantec CEO confidence index. The Index suveys more than 1 000 CEOs from top South African companies, and found a drop in confidence in all sectors – basic resources, industrials, financial, consumer goods, consumer services and ICT.

Gallo Images/iStock

THE UGLY

It's hard to keep track of energy minister Tina Joemat-Pettersson's spinning on the size, cost and affordability for the country's planned nuclear build. Now Tina is playing the climate change card to justify spending on nuclear, even after government's own 2013 integrated resource plan (IRP) downscaled its contribution citing costs concerns. What is certain is that the nuclear programme will offer rich pickings to those with the right connections, and this is only the start of the shenanigans.



Tina Joemat-Pettersson
Minister of energy

Sowetan wine market on the up

BY BUHLE NDWENI

The Soweto Wine & Lifestyle Festival has become an annual event that many people in Gauteng look forward to attending. This weekend from 4 to 6 September, about 10 000 festival goers are expected to descend on Walter Sisulu Square, in Kliptown, Soweto, where the 11th annual wine festival will be held.

When the Soweto Wine & Lifestyle Festival launched in 2004, it attracted 1 500 visitors over the three days. This year, organisers hope to attract 10 000 visitors. Organisers of the festival say that this relatively new wine drinking market has become sophisticated. And, they say, it's not just about educating the masses about wine, but exposing new consumers to small boutique wineries across the country.

After reaching maximum capacity of about 8 500 at the University of Johannesburg Soweto Campus last year, the festival has now been moved to the historic Walter Sisulu Square.

The festival is expected to include between 30 and 40 wine exhibitors, says Marilyn Cooper, co-founder of the festival and Cape Wine Master.

Cooper enthuses that a new element at this year's event is the inclusion of about 15 local entrepreneurs who will be showcasing products ranging from fashion and art to food. "It's not just about wine, but opening our market to local Soweto producers," she says.

THE MARKET HAS BECOME MORE **SOPHISTICATED** OVER THE PAST 10 YEARS AND SERVES AS GREAT EXPOSURE FOR SMALL PRODUCERS.

Through this, the festival seeks to expose local entrepreneurs to the audiences in the middle to upper middle class that attend the festival.

"Half of [the festival goers] are from Soweto, but the other half do not live in Soweto," says Cooper.

Popular entry-level wine brand, Four Cousins, will be at the festival to exhibit to wine lovers in Soweto, which is their biggest market, says Cooper.

While the likes of Distell and JC le Roux will not be present at this year's festival, Cooper says this provides smaller wineries with a platform to showcase their wines.

"We have a lot of small wine producers this year and a lot of new people that haven't exhibited before," says Cooper.

"What's nice to see is that our wine producers are in line with our entrepreneurs; they are small boutique wineries." Cooper explains that the market has become more sophisticated over the past 10 years and serves as great exposure for small producers. "[Wine lovers] actually want to find those little gems in the industry."

According to Cooper, the past 10 years have revealed a trend. Initially, festival goers will start with sweet white wine, but as their tastes become more refined, they move to dry white wine and eventually acquire a taste for red.

"Half of our audience still drink the sweet and the bubbly, but the other half has really moved on from that. They are playing with white wine blends and merlot, which is a huge seller now because it's the first red wine they drink; it's soft and juicy and the first step to the more tannic styles of red wine," she explains.

In general, black consumers' share of the wine market has been growing substantially. This population's share of bottled wine consumption increased from 61% in 2009, to 69% in 2013 (representing roughly 5% of the total black population), according to the *South African Country report on Geo-demographic Trends among Alcoholic Beverages Categories* released in November 2013. Over the same period black consumers' share of box or jug wine increased from 69% to 76%. ■

editorial@finweek.co.za

Co-founders of the Soweto Wine & Lifestyle Festival, Mnikelo Mangciphu (left) owner/manager of the only wine shop in Soweto, Morara Wine & Spirit Emporium, and Marilyn Cooper (right), a Cape Wine Master and former CEO of the Cape Wine Academy

Image supplied by Hot Salsa Media

LETTER FROM NIGERIA

Nigeria should stay grounded, for now

Nigeria should have its own airline. Anyone who has seen the size and stature of the Nigerian economy knows it. It did have a national carrier, Nigeria Airways, but it collapsed in 2003, mired in debt and brought low by corruption and mismanagement (on a pessimistic day, I'd tell you that you could pick a sector in Nigeria and you'd find a story similar to this).

In August, president Muhammadu Buhari ordered the ministry of aviation to begin work on the establishment of a new airline, expressing his concern at Nigeria's lack of a national carrier. It is, in his view, an important step for national pride but also for job creation, which is suffering due to the sharp drop in crude oil prices, the main driver of the Nigerian economy.

The move has been welcomed by some quarters: it's true that the continent's largest economy should boast an airline and that there are certainly passengers looking for an alternative to much-derided Arik Air, whose services were severely compromised during Nigeria's recent fuel crisis and where – in my recent experience – your plane is far more likely to be delayed than not. Nigeria wouldn't have to do much to offer a service that was an improvement on some of my trips; even the word Arik prompts rolled eyes and sighs from disgruntled customers keen for better services.

> AN AIRLINE IS A NICE IDEA AND WILL EVENTUALLY AND HOPEFULLY BECOME A REALITY, BUT IT'S AN IDEA THAT SHOULD STAY AT THE BOTTOM OF THE TO-DO LIST.

For others, Buhari's focus on an airline seems odd. Firstly, getting a profitable airline going seems like a difficult business in Nigeria – despite the disbursal of a ₦300bn (around R20bn) intervention fund, most of the country's private airlines are heavily indebted to regulatory agencies under the aviation ministry.

Secondly, an airline is an expensive project at a time when Nigeria's not flush with cash, partly because of the oil price crash and partly because of large-scale misappropriation of funds under previous administrations.

Say you've booked a plane ticket to fly to Abuja from Lagos. You'll wake up how many hours before to beat the traffic and negotiate the roads, the traffic and the area boys? You'll walk past how many beggars on your way into the airport? You'll queue for ages only to discover the plane isn't running that day because of operational difficulties, which usually means insufficient jet fuel supply. You may eventually get on the plane only to find the landing delayed in Abuja because of private jet traffic into the airport or because of repairs being done to the runway.

From this hypothetical trip alone, you can see that Nigeria's priorities need for now to be far more fundamental than airlines. Fix inequality, fix basic infrastructure, fix the reliance of the economy on imported oil products when it produces its own crude oil. Find jobs fast for those who need them now, rather than building a project and then finding people to fit. Ensure that when you've built your airline, history won't repeat itself; so that means fixing corruption.

An airline is a nice idea and will eventually and hopefully become a reality, but it's an idea that should stay at the bottom of the to-do list until far more fundamental building blocks are in place. ■

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THE GLOBAL ECONOMIC SUPER CYCLE IS OVER

BY CIARAN RYAN

The global super cycle that powered the world economy over the last two decades and sent stocks, commodities and property to historic highs, has run its course. As China's economic miracle starts to unravel, it's time to prepare for a long, cold winter.

Seasoned market watchers knew something was amiss when China's stock market cracked in July. There was panic in the sell-off, despite reassurance from some analysts that this was just a blip on the screen and normal services would soon be resumed.

The Shanghai Composite Index has lost nearly 40% of its value since June, wiping out billions of dollars in wealth. The Chinese government dropped interest rates for the fifth time in nine months and devalued the yuan to keep money flowing into what is now starting to look like a dangerously distended bubble economy.

The currency markets went wild as investors ran for cover of the US dollar, and the much-anticipated hike in US interest rates – due to start in September – may now be put on hold. Suddenly, the one certainty that carried the global economy out of the 2008 financial bust – that of China's emergence as an economic force of nature – appeared to rest on shaky foundations.

The other certainty to emerge in recent weeks is that the decades-long

commodity super cycle is over. With that comes slower economic growth, or worse – outright recession. The SA economy contracted 1.3% in the second quarter of this year, which makes National Treasury's modest 2% growth target for the year look optimistic. Nomura downgraded its growth forecast for the year to 1.6% from 1.9%, with growth of 2.1% expected in 2016 and 2.6% in 2017. SA has been through down cycles before, but what is different this time is that the causes are structural rather than cyclical: Eskom outages, rigid labour laws, unsustainable government spending, outsized trade and fiscal deficits, the Jacob Zuma factor and a rand, which has hit the wall. Last week it breached R14 to the US dollar, its lowest level ever, albeit in a single trade, and has now lost more than half its value since 2005.

What's worrying is the lack of appreciation in government of the severity of the crisis. "This is the end of the emerging market era," says David Shapiro, deputy chairman at Sasfin Securities. "We benefitted from the commodity super cycle, but this created a certain arrogance, and economic reforms that should have been introduced were dropped."

A recent World Economic Outlook report from the International Monetary Fund spells out the reforms that are needed to prod the economy out of its stupor: remove power bottlenecks, improve government service delivery and reform labour, education and product markets.

None of the required reforms are being attacked with any real sense of urgency, according to Shapiro. Stephen Meintjes, head of research at Imara SP Reid, believes central banks have learnt to be more accommodating, but this does not avoid the need for structural reforms. "Whereas the eurozone has bludgeoned its wayward members into enacting reforms, there are many emerging market electorates and governments that continue to ignore the need for them. Ultimately, markets may force them to."

FNB household and property sector strategist John Loos believes SA is now on the downward slope of a super cycle that may take 25 years to bottom. "My reasoning is based on previous super cycles, such as the one that lasted from the late 1970s to the early 1990s. This was a period of stagnant economic growth and capital flight. There is no doubt that this contributed to the demise of apartheid. What is clear is that periods of weak or declining activity are accompanied by social change, often dramatic change."

SA emerged from the last super cycle in the late 1990s as it harvested the dividends of democratic change, resulting in capital inflows and rising commodity prices. This carried it through to 2007, when economic growth breached 5% a year for a period.


David Shapiro
Deputy chairman
at Sasfin Securities

SUDDENLY, THE ONE **CERTAINTY** THAT CARRIED THE GLOBAL ECONOMY OUT OF THE 2008 FINANCIAL BUST – THAT OF CHINA'S EMERGENCE AS AN ECONOMIC FORCE OF NATURE – APPEARED TO REST ON SHAKY FOUNDATIONS.

Loos says there are parallels between SA in the 1980s and now. Firstly, economic growth has stagnated. And like the post-boom period of the early 1980s, social tensions have risen, witnessed in heightened service delivery protests and strike action since 2008.

"This time around the environment is a little different in that there is little chance of economic boycotts and sanctions which came as a result of the global rejection of the apartheid system. Now it is simply about policies not geared to achieving significant growth and employment, thus not creating an investor-friendly climate. But the result can be similar albeit perhaps less extreme, i.e. ratings downgrades and rising investor concerns," says Loos in a recent FNB *Property Barometer*.

Loos says there is a risk that house prices will struggle to keep up with inflation as the Reserve Bank continues to hike interest rates over the next few years, with the prime lending rate expected to reach 10.5% by 2017.

While falling Chinese demand is widely blamed for the general softening in commodity prices, other factors are at play. The sharp drop in oil prices was aggravated by massive investment in the US shale industry and Opec's decision to maintain high levels of

output. Similarly, iron ore producers kept their smelters going in the face of falling demand, which contributed to over-stocking and weaker prices. Commodity prices have also fallen victim to financial speculation. Several of these extraneous forces are likely to work their way out of the system in the months ahead, leading to more stable commodity prices.

LESSONS FROM THE GREAT CRASH OF 1929

The global debt explosion of the last seven years represents an unprecedented financial gamble engineered to prop up asset prices and cushion economies from shock. This policy prescription is a nod to the lessons of the Great Depression of the 1930s, but many believe it now dangerously overdone.

Economists of the so-called Austrian school have been warning of economic calamity since 2008 on the grounds that loose monetary policy always creates asset price bubbles. As one pops another one appears. The US Federal Reserve has operated a zero interest rate policy for seven years and has printed $3.7tr (R49tr) to boost markets and GDP growth, according to Chris Becker, lead economist and strategist at African Alliance. To put that in perspective, that's roughly 10 times SA's annual GDP. Other countries have followed suit with varying degrees of vigour. China's corporate and household debt has nearly doubled to 207% since 2008, and that has kept money flowing into its stock and property markets. The ratio for Japan is 230%. SA's public debt as a percentage of GDP has risen to nearly 70% from 26% in 2009, according to the latest Budget figures.

John Loos
Household and property sector strategist at FNB

Central banks' addiction to money printing is blamed for creating massive distortions in prices – from stocks and bonds to property and commodities. Nor is much of this new money finding its way to the street. It has ended up on the balance sheets of banks, large corporations and investors, creating asset price inflation. Consumer inflation, for the moment, remains under control.

The stock market collapse of 1929 was the result of a prolonged period of easy money and low interest rates, resulting in massive speculation in stocks, property and other assets. The Fed responded to the stock market crash by throttling money supply – the exact opposite of what central banks are doing today. By 1933, four years after the crash, US money supply had shrunk by a third. Unemployment reached 25%, there was a run on banks, 5 000 of which went bust in the US and tens of thousands of people were left homeless.

"The job of central banks everywhere is to always goose trouble-prone economies with printing press money so that households and business will spend more, the GDP will rise more and the stock bourses will be worth more," according to market commentator and former US congressman David

HOW TO PROTECT YOURSELF AGAINST A DOWNTURN

One certainty in times of economic turmoil is that money flows to safe havens, in which case the US dollar – for all its perceived weaknesses – stands out as a beacon of safety. And since many of the JSE Top40 companies now earn more than half their profits abroad, they will provide a cushion against rand weakness. They may not, however, provide a cushion against weak markets and falling profits.

A sudden crash in the market of 10% to 15% – such as happened across the world in the last few weeks – prompts knee-jerk reactions from retail investors looking to liquidate in a falling market. That can be a huge mistake. Investors tend to look at the rand's weakness as a trigger to move funds offshore, which is another potential mistake.

"The knee-jerk reaction is to disinvest from the SA investment landscape and to take money offshore," says Andrew Dittberner, senior investment manager at Cannon Asset Managers. "I would argue that is probably the most dangerous thing one could do right now. If we look back to 2001 and 2002 when the rand found itself in similar territory, it has taken investors who took money offshore at those prices the better part of 12 years to recoup their losses."

Should the rand recover, which many analysts believe is a possibility in the next three to five years, those who ship money abroad at these levels could end up in the same position as those who took rands out at R12 to the US dollar in 2002, only to see the currency double in value against the dollar by 2005.

The best protection against uncertainty is a well-diversified portfolio of stocks that are reasonably priced and that are not reliant on foreign money to prop up valuations. You will need patience and the stomach to ride out the volatility, says Dittberner.

Holding a sizable cash float is also advised in times of uncertainty. And for insurance purposes, gold and hard assets protect against adversity and inflation. ■

Stockman, in a recent article to investors. He argues that another devastating crash is imminent.

A study of boom and bust cycles over 214 years by John LaForge of Ned Davis Research shows historical bull markets lasted an average 16 years, and bear markets 20 years, though cyclical downturns have been shortening since 1971.

Becker, in a study entitled *Africa consumer hits a cyclical slowdown*, highlights the vulnerabilities of the continent's economies as the economic slowdown bites. Africa's consumer and GDP boom was built on a weak foundation which is now crumbling. "Rising borrowing from abroad, the sale of local assets to foreigners, income growth from the commodity super cycle, a dishoarding of low domestic savings and capital, and some marginal domestic productivity gains have been, in rough order of importance, the main drivers of the Africa consumer boom in the past decade," says Becker. These growth drivers are now evaporating.

Nor can Africa rely on a surging middle class consumer boom to rescue it from the slowdown. The consumer boom of the past decade was driven by growth in primary sectors (mining and agriculture) on the one hand and retail and distribution on the other. Missing was the "hollow middle" of manufacturing, says Becker. Without increased output and productivity gains, Africa's future growth cannot be taken for granted.

Becker points out that no sub-Saharan African country is putting up its hand to become the next Philippines or Vietnam. For a start, the savings rates are too low, and its economies are smothered by "dead capital" in the form

POLICY CHANGES NEEDED TO FIX SA INC.

For a quick shot in the arm, government needs to produce the infrastructure spend that has been promised but not delivered, says Andrew Dittberner, senior investment manager at Cannon Asset Managers.

The infrastructure would lift growth in the short term and improve business competitiveness in the long term. That's probably the easiest part. The more difficult choices involve reforming labour and other laws that squat in the path of growth and hinder job creation. The newly tightened visa rules that have slashed visitor numbers from China, Russia, Brazil and India could also be removed with ease.

Stephen Meintjies of Imara SP Reid argues for a radical switch away from taxing the fruits of labour and capital to the collection instead of economic rent by way of rentals on community created land values. "This is the only way to tackle the growing land crisis at its roots and will not only ensure efficient use of all land, but, in doing so, make it more freely available. By removing the heavy burden of direct and indirect taxes on marginal land, which includes most of SA's rural areas, economic activity there can be resumed," he says. "In principle, business would be highly incentivised to maximise production in the absence of taxation and its replacement by site value rentals. In other words, business would only have to pay the state for benefits received as reflected in land value. As regards the mining industry, South Africa has a long-standing proxy for collection of rent in the shape of the gold mining formula tax, which should be rolled out to the rest of the mining industry as soon as possible."

Dittberner says another policy fix that could boost growth is closer integration with our neighbours. "South Africa is unbelievably well positioned in one of the fastest growing regions in the world, yet we appear to be averse to contributing to the development of the region."

Dittberner adds that a third fix that will have to be addressed sooner or later is the size of the public sector, which has grown by a third over the last decade. The level of service delivered relative to the cost of this massive transfer from the wealth producing to the wealth consuming sector of the economy cannot be sustained.

Special economic zones and a one-stop investment shop, as proposed by the government will help, but will not have the desired effect without reforming labour laws. It is simply too costly and bureaucratic to do business in SA. Large corporations are laying off staff, and only small- and medium-sized businesses are hiring, so they should be helped.

Dittberner says Mexico provides a great case study presenting evidence regarding what can happen in a relatively short space of time, when a middle-income emerging country, not dissimilar to SA, that is teetering along at around 2% economic growth undertakes a number of structural reforms. When Enrique Peña Nieto won the presidential election in 2012, he was determined to push through a number of reforms that he was adamant would alter Mexico's long-term growth performance.

As part of the North American Free Trade Agreement, Mexico's exports rapidly grew to more than 60% of GDP, energy markets were privatised and the labour market reformed.

Locally, SAA and Eskom are dysfunctional and long overdue for privatisation. The sale proceeds could be directed to the development of SA's "soft infrastructure", notably health and education. The returns here can take a generation to be realised, but are vital to the long-term growth of the economy. ■

of land and other assets, but without title, that could be used as collateral to unlock credit.

Gross national savings in Ghana, Zambia, Kenya, Nigeria and SA averaged 14% between 1980 and 2000, less than half that of East Asian countries during the same period. In other words, a key prerequisite for an African recovery is absent, says Becker. Contrast this with China, where savings exceed 50% of GDP, or India's 30%.

Another prerequisite for African growth is Chinese demand. That, too, is on the wane. China's vice finance minister Zhu Guangyao was quick to reassure investors that 7% to 8% annual growth – as opposed to the double digit growth of the recent past – was the "new normal".

Not everyone is convinced. "My biggest worry is where the growth will come from in the future," says Shapiro. "Nothing jumps out at me. The days of double-digit growth in China are over, and the Chinese themselves recognise they have to make a structural change from reliance on manufactured exports to internal consumption. There is no technological revolution on the horizon such as the internet or cellphones. And SA has squandered the opportunity to introduce structural reforms that would help it ride out the downturn. It may be that a revolution in energy production is the next great economic stimulus, but I don't see it just yet." ■

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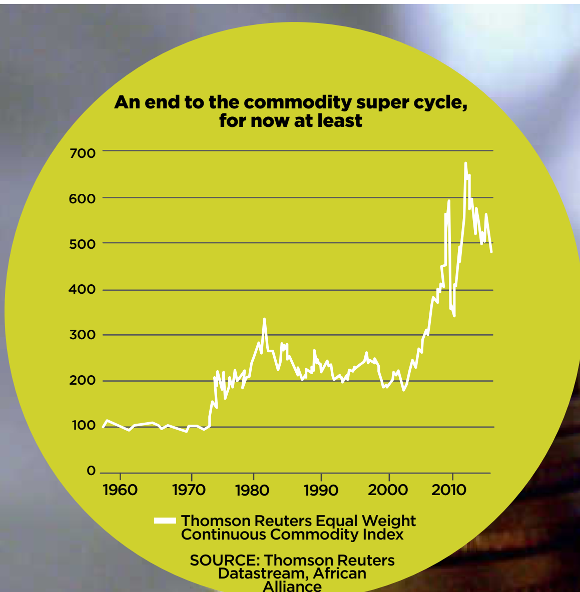

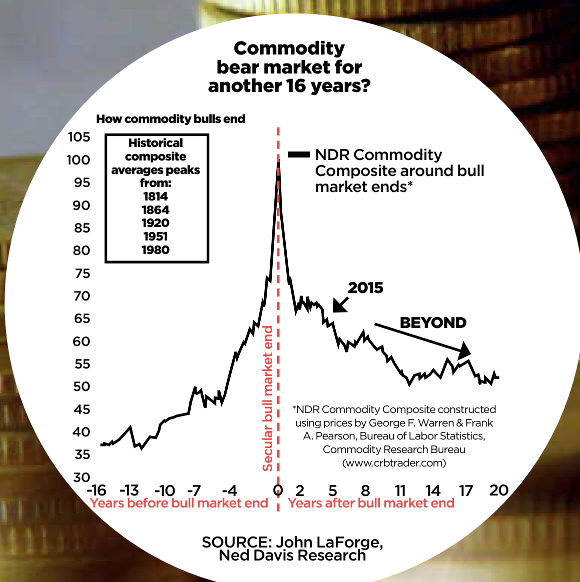

Large-cap companies with over 50% offshore revenue

COMPANIES	MARKET CAP
BHP Billiton	R489bn
Glencore	R553bn
BAT	R1.47bn
intu Properties	R87bn
Mediclinic	R95bn
MTN	376bn
Brait	R76bn
Richemont	R561bn
Aspen	R166bn
Steinhoff	R282bn
SABMiller	R1.11bn
Mondi	R110bn
Bidvest	R102bn
Naspers	R747bn
South32	R86bn

Gallo Images/iStock

INVESTMENT OPPORTUNITIES LIE OUTSIDE SA EQUITIES

SA equities will struggle to outperform global ones in the foreseeable future. For this reason, Old Mutual Investments currently prefers global assets in its portfolio, according to portfolio manager John Orford.

BY LIESL PEYPER

South Africa is now "suffering from inflationary pressures, low growth, high unemployment figures and current account deficits", John Orford, portfolio manager at Old Mutual MacroSolutions, said at an investment insight conference hosted by Old Mutual Investments at the end of August. SA's so-called tailwinds experienced since the early 2000s – such as steep growth in China, and the commodities boom – have now become headwinds, he said, adding that a number of these woes were "home-grown".

Nonetheless, they all conspire to a very low growth environment.

Since 2009, he said, the world has seen a "global Goldilocks" situation where things were neither too hot nor too cold. "Policymakers have put their foot on the pedal and we have seen very low interest rates in a deflationary environment," Orford said.

But that is about to change as the US Federal Reserve is starting to debate rate hikes as their economy is improving.

Against this background, Orford believes that "global equities still look attractive and you'll get better returns [than locally] just from the dividends".

Old Mutual's investment team also views SA bonds in a very positive light.

"Bonds benefit from a weak growth environment," said Orford. "Yes, they're lower than in the 1980s and 1990s, but inflation is currently much lower. One can expect a 3%+ real return from bonds currently."

THE BIGGER PICTURE

One of South Africa's biggest shortcomings is not having enough entrepreneurs, which in turn can be ascribed to a lack of a skilled workforce, according to Elias Masilela, director of DNA Economics and a part-time commissioner of the National Planning Commission.

"If you compare South Africa to the region north of Limpopo, the people who trade on the side of the road are also the producers of the goods they sell," Masilela said at the conference. "But it's not the case in South Africa. Why not? It's because of a lack of skills."

Skills are important for labour market flexibility, Masilela said. "We need a trainable workforce. All the problems in the mining sector; the miner is trained for mining alone and nothing else. If we had a solid base of education, it would have been trivial to move from one sector to another."

Meanwhile Masilela said the private sector needed to up its involvement in the National Development Plan, as the socioeconomic problems SA faces will inevitably affect companies' bottom lines. "Gone are the days when leadership and policy decisions can only be left to the government." ■

A FEW HOME-GROWN GEMS

There were, however, still "amazing businesses" locally, said Peter Linley, head of Old Mutual Equities.

"We've had access to top quality businesses through SAB, BAT, Steinhoff, Remgro and Naspers* that are still drawing lots of earnings from outside the domestic economy."

According to Linley, Old Mutual has abided by its investment philosophy: buying low price-earnings (P/E) stocks, which provides a margin of safety.

"But a low P/E isn't always good enough. If you get the earnings wrong, you'll get investment wrong," he said.

The valuation of a stock, he said, is only part of the picture and part of his investment strategy is to also take into account what a stock's relative earnings would look like compared to the rest of the market.

Linley explained that dividend yields are important to companies, as they serve as an indication of performance. "If a company doesn't pay a dividend it raises a big, red flag." ■

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**Finweek* is a publication of Media24, a subsidiary of Naspers.

5 OPPORTUNITIES FOR INCLUSIVE GROWTH

COMPILED BY BUHLE NDWENI

South Africa has the potential to create more than 3.4m jobs and add over R1tr to annual GDP by 2030 if government and business prioritise five key opportunities to unlock growth, according to a new report by the McKinsey Global Institute. Success will depend on two critical enablers: dramatically expanding vocational training in SA, and forging a true development partnership between government and business, it said.

THE FIVE OPPORTUNITIES ARE:

1) ADVANCED MANUFACTURING

POTENTIAL GDP BOOST: **R540BN**
POTENTIAL JOBS: **1.5M**

The relative contribution of SA's manufacturing to GDP has almost halved since 1990, leading to pessimism about the sector's future. Currently manufacturing directly contributes only 13% to GDP, compared with 20% of GDP in comparable economies. McKinsey's analysis suggests that by 2030, exports of advanced manufactured products could grow to more than R700bn, from R190bn in 2013. The opportunity exists in the automotive, industrial machinery and equipment, and chemicals sectors, and would require manufacturers to pursue new markets and improve innovation and productivity.

2) INFRASTRUCTURE PRODUCTIVITY

POTENTIAL GDP BOOST: **R260BN**
POTENTIAL JOBS: **660 000**

While SA's investment in infrastructure as a percentage of GDP, at 4.9%, is among the highest in the world, there are still major gaps in electricity supply and access to clean water and sanitation, according to McKinsey. It has earmarked R2.2tr to be invested in infrastructure over the next decade. The impact of smarter infrastructure delivery in SA would be "tremendous", it said, saving the country up to R1.4tr over the next decade. A more effective approach to domestic infrastructure delivery would also build the capabilities needed to support expanded exports of construction services to the rest of Africa.

3) NATURAL GAS

POTENTIAL GDP BOOST: **R250BN**
POTENTIAL JOBS: **330 000**

Natural gas provides an opportunity for SA to meet its power generation needs. A shortfall is expected again by 2025, despite the building of Medupi and Kusile, Eskom's mega coal-fired power stations, as old power plants get decommissioned, McKinsey said. At the right price, gas could also provide an opportunity in chemical manufacturing. The first step would be to secure sufficient supply, for example by importing liquefied natural gas (LNG). Although SA's own shale gas resources are yet to be proven, they could potentially create an additional 40 000 to 102 000 jobs and would require investment of between R600bn and R1tr, according to McKinsey.

4) SERVICE EXPORTS

POTENTIAL GDP BOOST: **R245BN**
POTENTIAL JOBS: **460 000**

Globally, services constitute 70% of GDP while they make up 62% in SA. The country has highly developed service industries, yet McKinsey estimates that it currently captures only 2% of the rest of sub-Saharan Africa's (SSA) market for service imports, which was worth an estimated R536bn in 2012, growing at an average of 7.1% from 2002 to 2012. In contrast, Brazil – which accounts for a comparable share of GDP in its region – commands a 26% market share in providing service imports to Latin America, according to the report. Service exports from SA to SSA could grow from R10bn in 2012 to R120bn by 2030, the report said.

5) AGRICULTURAL TRANSFORMATION

POTENTIAL GDP BOOST: **R160BN**
POTENTIAL JOBS: **490 000**

SA has productive, internationally competitive agriculture and agro-processing sectors, and should use this comparative advantage to capture burgeoning demand of its agricultural products in Africa, Europe, Asia-Pacific, and the Middle East. McKinsey estimates there is scope to triple SA's agricultural exports to R212bn by 2030, which will boost rural growth and benefit the nearly one in 10 South Africans who depend on subsistence or smallholder farming.

A number of SA's existing agricultural export markets, notably SSA and Asia, are growing rapidly as large populations join the consuming class, according to McKinsey. The opportunity lies primarily in fruits, beverages, animal products and cereals, it said, and SA needs to improve its competitiveness in areas such as poultry. ■

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Health sector's R24bn bill for **'irregular'** spending

BY SHOKS MZOLO

Corruption in the local healthcare sector compromises patient care and lowers the morale of employees in the sector. This is according to a recent study, *Exploring corruption in the South African health sector*, by Wits University's Prof. Sharon Fonn, Prof. Laetitia Rispel and Dr Pieter de Jager.

The study noted that in SA, where the total private and public health budget is pegged at R400bn, a total of R8bn combined provincial health expenditures was "unauthorised" and another R24.1bn "irregular" in the last four years.

According to the study, "fruitless and wasteful expenditure" hit R1.3bn for the three-year period to end 2013.

For Corruption Watch director David Lewis, the real cost is the ever-falling standards in the ailing public healthcare sector.

Ironically, "more than enough laws are in place to prevent corruption" but implementation remains a problem, according to researchers and the authors of the report.

Reasons for increased levels of corruption, according to the report, include the blurred lines between political power and business interests; lack of mechanisms to detect graft (as whistle-blowers tend to be muzzled, deterring others from reporting wrongdoing); conflicts of interest; and failure to sanction transgressors.

Earlier research by Econex linked the "demise" of the sector regarding mismanagement and corruption, with just 20% of state facilities presenting clean or unqualified audit reports.

Gauteng, whose health-related irregular spending over the past four years hit R5.4bn, recently axed 18 employees for crimes ranging from the theft of R10 000, stealing medicines, and the unauthorised use and possession of state vehicles (including an ambulance).

The study, covering a nine-year period, looked at findings from the Auditor-General, which show a "worsening trend" in audit outcomes, and reports in print media. Over the period, the majority (63%) of corruption-related reports concerned the public sector, said the authors.

"We would like government health departments to engage with the issues that we raise, debate them, and try to implement practical solutions to prevent corruption, as it tends to hurt communities, and the poor," they said.

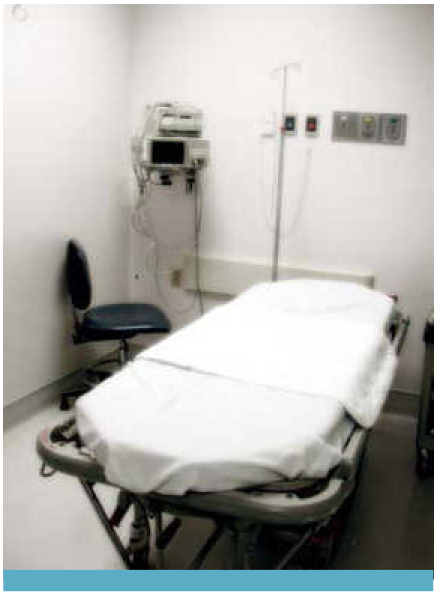
ALL SOUTH AFRICANS NEED TO NOTICE AND MEASURE GRAFT AND BE VOCAL ABOUT IT.

On a more positive note, the Wits researchers noted an improvement in irregular expenditure in Gauteng from 11% of its health expenditure in 2010/11 to 5% a year later. It still hovers around 5%.

In contrast, KwaZulu-Natal's has trebled to 10%. The Northern Cape has, for the past three years, ranged between 32% and 42%, compared with 5% in 2009/10.

"The [National Development Plan] also notes that poor accountability in the health sector reduces health system effectiveness," said the study, adding that the plan conceded "high levels of corruption" in both private and public sectors.

The problem "is also illustrated by the National Treasury's 2013 budget allocation of R71.4m [...] to the South African Public Service Commission 'to combat corruption and address grievances'."



Gallo Images/iStock

Instead of investing funds in such exercises, amid persistent conflicted interests – as in the case of an unnamed hospital CEO being a director of nine firms – researchers ask for "commitment at all levels of the health system to deal with corruption – we need systematic intolerance of wrong doing". All South Africans need to notice and measure graft and be vocal about it, they say.

"The louder the noise, the more we can change this society so that it serves its citizens well," write De Jager, Fonn and Rispel.

"We would like government to pay more attention to improving management, comply with existing laws, ensure that civil servants with the right skills are employed, and communicate a message that corruption is not acceptable in our democracy."

According to the same study, the US loses an estimated $60bn (equalling R800bn or 3% of its annual health spending) to graft a year. ■

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Massmart needs to get it together

BY SHOKS MZOLO

Nearly four years after US retailer Walmart bought a 51% stake in discount retailer Massmart, the group is struggling to improve the profitability of its local operations and make inroads on the rest of the continent. Recently released results are not convincing of the company's ability to better its performance, but the company is acutely aware of its shortcomings and is working hard on improving, says CEO Guy Hayward.

Massmart, which released underwhelming interim results for the 26 weeks ended 28 June, has seen its share price decline nearly 20% since the start of the year, underperforming competitors like Shoprite (down 4.3%), Pick n Pay (up 22.5%) and Woolworths (up 29.1%). The Massmart share price is down 45% from its May 2013 peak of R205.04, and the share is now trading at 2010 levels (also see page 32).

At the time of the 2011 deal, which saw the global titan pay R17bn to take a 51% stake in the local retail group, pundits spoke of the "Walmart effect". CEO Guy Hayward half-jests that the fact that the Walmart magic is not yet apparent should put a stop to criticism that arose when the deal was first struck, when it was claimed that the NYSE-listed titan would flood SA with cheap goods, hurting local industry and jobs. Long-term benefits, he says, will derive by way of critical mass and innovation – from IT to distribution centres – and other critical competitive factors.

In the meantime, the retailer is struggling to keep up with competitors. In the June period, Massmart's headline earnings dropped 26% to R269.3m, partly due to foreign exchange losses. A similar fall in percentage terms was recorded last year. At R306.6m now, net profits have softened by well over a third since the first half of 2013 despite revenue increasing by 9% to R39bn over the period.

Woolworths, in contrast, posted a 19.4% jump in headline earnings to R3.3bn and a 4.3% rise in net profit to R3.1bn for the year to June. Revenue increased 45.4% to R58.1bn thanks to the inclusion of David Jones, an Australian business that the Cape Town-based retailer splurged R23bn on last year. Its performance was partly buffered by its focus on high LSMs,

Getty Images/ Bloomberg/ Dean Hutton

which protected it somewhat from the impact of weak consumer confidence, which is at 14-year lows.

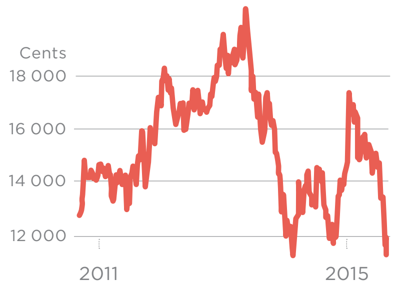
"We believe that economic conditions in South Africa [and] Australia will remain constrained, especially in the lower and middle-income segments of the market. The upper-income segments in which we operate continue to show some resilience," Woolworths said in a statement.

Compared with Woolworths, the Walmart unit looks lost. It's not all doom and gloom, however. For one, its star performer, Massbuild, a division that includes Builders Warehouse, surged 31% in trading profit on the back of a 16.3% jump in total sales.

Another piece of good news is that Massmart has, after years of attempts (including an offer to buy a majority stake in Naivas Supermarkets that failed last year), set up operations in Kenya – adding the east African powerhouse to its footprint after opening a Game in Nairobi during the year, expanding Massmart's footprint to 14 countries.

Going forward, the plan is to keep growing presence outside SA where 85% of its 400 stores are still concentrated. "We're certainly pursuing new growth,"

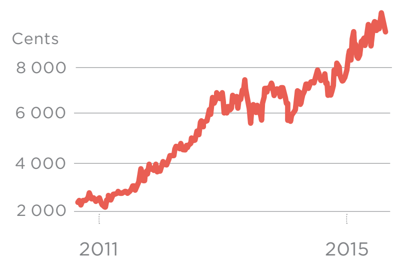
Massmart Holdings Limited



52-week range:	R106.69 - R175
Price/earnings ratio:	24.4
1-year total return:	-11%
Market capitalisation:	R24.7bn
Earnings per share:	R4.66
Dividend yield:	3.7%
Average volume over 30 days:	551 102

SOURCE: Bloomberg.com

Woolworths Holdings Limited



52-week range:	R64.94 - R103.92
Price/earnings ratio:	26.8
1-year total return:	+30.3%
Market capitalisation:	R94.7bn
Earnings per share:	R3.70
Dividend yield:	2.5%
Average volume over 30 days:	3 602 890

SOURCE: Bloomberg.com

Hayward says, noting that recently-opened stores, including Game branches in Nairobi and Zambia's Kitwe, are doing well. Massmart plans to open eight new stores in Nigeria, Ghana and Zambia in the next two years.

Tota Tsotsotso, managing director of Bataung Capital, says Massmart's interim numbers were "decent", given the ever-shifting economic and competitive landscapes. The challenge with its Africa strategy will be sourcing and logistics, Tsotsotso says.

"Builders Warehouse has been successful in Mozambique, and rival Cashbuild has demonstrated that a concentrated product approach to each town or region within each country is the better strategy. Local sourcing is a big challenge."

But, much as Massmart profits continue to decelerate, it remains "a great business with a good management team", Tsotsotso explains. "Its prospects are still decent, albeit we are likely to see a lot of pressure in the short term. Medium-term commodity inflation will help a lot. Long-term African urbanisation is still a dominant theme. I do think that the market will likely be cautious of Massmart as an opportunity at the moment, until the picture gets less murky."

Looking ahead, Hayward, who joined Massmart in 2000 and took over as CEO last year, said cost-cutting and efficiencies continue to be priorities. He's also openly unhappy with what's happening on the profit front and concedes the firm's blunders. "We're turning a corner," he says. "This is something we think about every day. [Profitability] is not where it should be; we're acutely aware of this and are working towards improving it."

Still, a price-to-earnings ratio of around 24, compared with Woolies' 26, doesn't necessarily make this stock a screaming buy.

"Returns are still attractive, but far lower than their historical averages have been. I wouldn't write the business off just yet. Walmart, being the parent company, is an exceptional business with exceptionally deep pockets," says Tsotsotso. "Some of the concerns that shareholders have are that there isn't a lot of free cash flow, and there are possibly easier ways to gain access to the African consumer … I think it will take a while for management to convince investors that their opportunity is the best." ■

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Tough times: **Growthpoint** worries over dividend yield

BY GLENDA WILLIAMS

"South Africa is in a tough space," says Norbert Sasse, CEO of Growthpoint Properties Limited. Yet, against the backdrop of a difficult operating environment, SA's largest real estate investment trust (REIT) posted healthy dividend growth of 7.5% for the financial year to end June.

But the country's macros, negative gearing, rising vacancies, refinancing of Acucap Properties Limited and Sycom Property Fund debt, and increasing withholding tax are key reasons for the company expecting dividend growth to be down around two percentage points for the upcoming year. The outlook of 5% to 6% positive distribution growth is expected to come primarily from redevelopment of existing properties rather than acquisitions.

This year's growth, however, was driven largely by acquisitions. For the first time, Growthpoint's annual distributions to shareholders exceeded R4bn for the year, which included an early R1bn payment as part of the R18.6bn acquisition deal of the Acucap Properties Limited and Sycom Property Fund portfolios. But for the early payment, distribution growth would have been an even higher 8.4%, says Sasse.

Notably, the company has grown its assets to over R100bn, boasting 525 properties – 53 of them offshore – with net income up by 21.4%. Growthpoint has also grown market cap to R71.7bn and increased staff numbers by over 55% in the past two years. Offshore investment also grew with the addition of R607m during the year into Growthpoint Properties Australia (GOZ).

Significant growth in its Australian subsidiary means the company has literally doubled the size of its investment since 2010 with 15.5% of distributable income coming from Australia. The bulk of its distributable income – 75.8% – comes from the South African portfolio, with a further 8.7% coming from the V&A Waterfront through its 50% interest in the properties.

But the tough operating environment is already impacting vacancies, which have risen from 4.9% to 5.7% overall.

The company has an acquisition and development pipeline of R4.2bn, but commenting on further acquisitions Sasse says: "The SA market is not conducive for us right now. We've got significant scale in the domestic market and there aren't that many quality opportunities left. And what's left is frightfully expensive." Add to this negative gearing; borrowing at 9.5% to get a 7.5% return.

That doesn't mean the company will shy away from a viable quality acquisition opportunity, but looking forward Sasse says their strategy will be one of consolidating and optimising the properties they have. "We see better value in developing new product on the back of pre-commitments and where we can get better yields of around 8.5% to 10%." Much of that redevelopment will be down in the Western Cape with emphasis on the Gateway precinct of the V&A.

Like almost every other property fund, Sasse says they are exploring alternative markets. "There is nothing right now which is hard and fast or in final negotiation but we have our eyes and ears open for opportunities outside of SA that include Africa and Europe. The key driver for us is diversifying into hard currency markets," adds Sasse. ■

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HIGHLIGHTS:

Distribution growth: **7.5%**

Total return to investors: **14%**

Total return on Growthpoint Properties Australia (GOZ): **31.9%**

Total asset value: **R100.4bn**

No. of properties in SA: **471**

Value of SA properties: **R71.6bn**

No. of properties in Australia through GOZ investment: **53**

Value of Australian properties: **R22bn**

Value of 50% in V&A Waterfront: **R6.8bn**

Revenue growth: **20.7%**

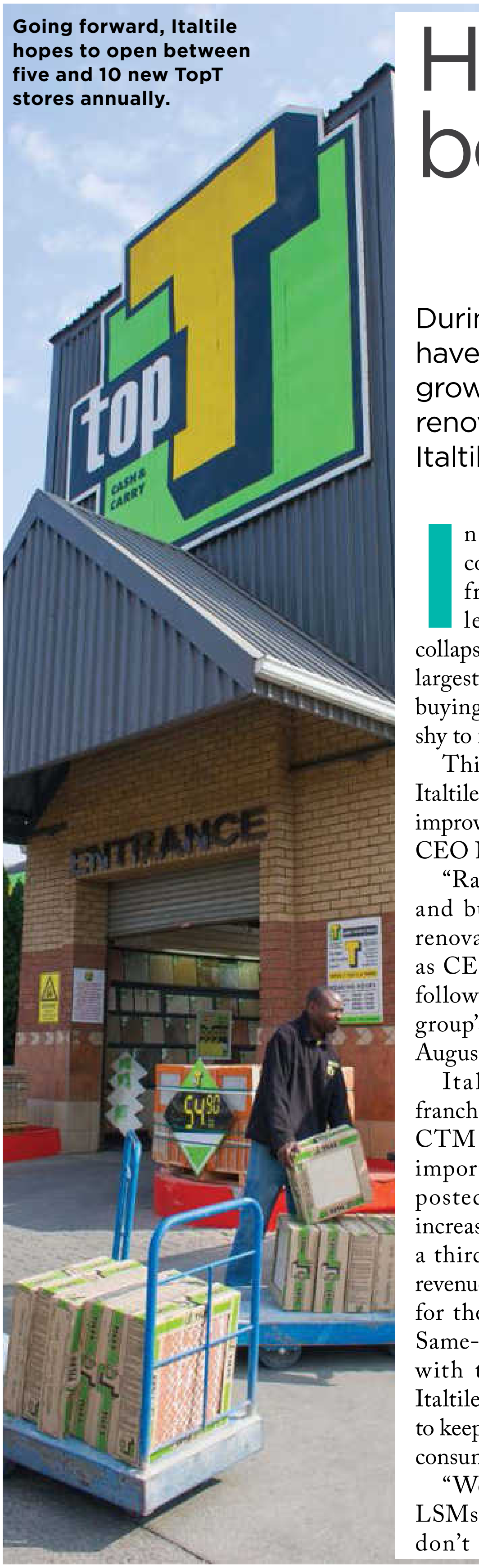
Annual distributable income: **R4.2bn**

GROWTHPOINT'S JOURNEY

	2010	2015
Property assets	R35bn	R100bn
Market cap	R24bn	R72bn
Distribution per share	121.2 cents	173.4 cents
Share price	R15.52	R26.46
NTAV* per share	R13.65	R23.28
Properties**	456	525
Staff	452	700
GOZ market cap	AUD283m	AUD1.8bn
GOZ properties	25	53

*Net tangible asset value
**Including 100% of Growthpoint Properties Australia (GOZ) and 50% of V&A Waterfront

SOURCE: Growthpoint Properties Ltd



Going forward, Italtile hopes to open between five and 10 new TopT stores annually.

Home renovators boost **Italtile profit**

BY JACO VISSER

During a tough economic climate, companies usually have to tighten their belts. But Italtile Ltd is seeing growth opportunities as local consumers opt to renovate their homes, rather than buying new ones, Italtile CEO Nick Booth told *Finweek.*

Indebted South African consumers, who are still reeling from the bubble in unsecured lending and the subsequent collapse of African Bank, formerly the largest lender of its sort, are still shy of buying new property. And banks are shy to forward credit.

This boasts a potential chance for Italtile Ltd to capitalise on the home-improvement market, according to its CEO Nick Booth.

"Rather than selling their homes and buying new ones, owners are renovating," Booth, who took over as CEO in July 2014, told *Finweek,* following the announcement of the group's annual results at the end of August.

Italtile Ltd, the owners and franchisor of retailers such as Italtile, CTM and TopT, that sell local and imported home-finishing products posted a 37% jump in profit and increased its total dividend by almost a third.The company's system-wide revenue rose 17% to more than R5.2bn for the 12 months ending 30 June. Same-store sales rose 16% compared with the previous financial year. Italtile Ltd forfeited margins in a bid to keep its market share in a struggling consumer market.

"We saw resilience in the lower LSMs as consumers in those bands don't worry too much about the exchange rate and big picture economy. They just want to improve their homes," said Booth.

While the group's top-end retail brand, Italtile, took the brunt of the rand's depreciation over the period as it relied on imported products the most, its TopT brand was rolled out faster than the company anticipated.

With its store sizes of between 500m^2 and 600m^2, the company is able to expand into outlying and rural areas where it is underrepresented and where higher-value offerings of home-improvement products, such as Tivoli taps and imported tiles, are not readily accessible, Booth said.

ITALTILE LTD POSTED A 37% JUMP IN PROFIT AND INCREASED ITS TOTAL DIVIDEND BY ALMOST A THIRD.

"What TopT in rural areas offers consumers now is a one-stop shop where they can buy all their home-improvement products," according to Booth. "This is especially important in light of high travelling costs in these areas."

Wealthier consumers were more reticent in their spending as the

economic environment had the biggest impact on them, Booth said.

"We don't hedge our foreign currency exposure," he said. "We cost our products as they arrive in the store."

Retail brand Italtile saw price inflation of about 10% compared with lower-income targeted TopT's average price inflation of between 3% and 4%.

In a bid to boost efficiency and profitability, Italtile Ltd owns a number of suppliers, including International Tap Distributors, which manufactures the Tivoli and Amalfi brands of taps. Italtile acquired 80% of International Tap Distributors in 2005.

The group also owns 20% of Ceramic Industries, where Booth hails from, which is the primary supplier of tiles, sanitaryware and bathroom products to the company's three retail brands. In addition, Italtile Ltd holds 46% of Ezeetile, a manufacturer of tile adhesive and grout.

Ceramic contributed R55m to the group's profit whereas Ezeetile contributed R7m, according to the company's financial results. The group's total profit was R731m for the 12 months ending 30 June.

Italtile, which contributes about 15% to group turnover, was boosted by a resilient commercial property development market, according to a press release announcing the company's results. These developments included, among others, office blocks, shopping centres, warehouses and health centres.

Booth said the company would probably not feel a big impact if interest rates are raised in the coming months. The Reserve Bank has started its monetary tightening cycle at the beginning of last year and has hiked its benchmark repurchase rate thrice by a cumulative one percentage point to 6% in July.

South African consumers are also in the stranglehold of job cuts in the mining sector as demand for the country's resources flounders due to a cool down in the Chinese economy, the largest export destination for minerals. Iron ore, gold and platinum prices are at multiyear lows and large numbers of mineworkers are being laid off.

Ironically, Italtile Ltd hasn't seen a marked decline in sales in traditional mining towns such as Kathu and Rustenburg, Booth said. The only shop where a slump in sales was recorded, is Welkom, he said. "We did, however feel the impact of the strike in the platinum sector last year," he said.

Notwithstanding tough local economic conditions, the company still sees the potential for expansion in its TopT brand in SA over the next four to five years, according to Booth. The plan is to open between five and 10 TopT stores annually.

EYEING EAST AFRICA

In a bid to diversify its footprint away from the BLNS (Botswana, Lesotho, Namibia and Swaziland) countries, which rely heavily on SA's economic performance, Italtile Ltd is looking to East Africa for expansion.

"In terms of the CTM brand, in addition to further stores in South Africa, we see an opportunity in Kenya," Booth said.

"We have two stores in Kenya with one in Mombasa and one in Nairobi. We have plans in place to roll out another four stores in Nairobi over the next five years. There is also the potential to put a small distribution centre up in Mombasa."

If the group can succeed in getting its business model working in Kenya, it will look at expanding into other countries too, Booth said. The links in terms of logistics between SA and Kenya are good and that is one of the reasons why Italtile Ltd is looking to use the East African nation as a springboard into the rest of the continent, according to him.

"About 15% of the hits on CTM's online web store come from Kenya," Booth said. ■

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GETTING TO KNOW NICK BOOTH

Q: What are you currently reading?
A: I'm reading a book called *The Wal-Mart Effect* by Charles Fishman. I asked an analyst about a year ago to recommend a book about retail as I'm from a manufacturing background.

Q: What do you do to relax?
A: I have a lot of fun running the business. I have a regular four-ball (golf) on a Sunday morning early so I'm home in time to be with the family. I also read a bit.

Q: What sport do you watch and which teams do you support?
A: I love football and I'm a Manchester City supporter of note. I was actually born in Manchester and my whole family supports City; I'm not one of those guys who started supporting them because they started winning stuff. I have managed to make a couple of rugby World Cup finals in my life. I'm going to this final as well. For the record – I'm a Lions supporter.

Nick Booth
CEO of Italtile Ltd

Green buildings start paying off

BY GLENDA WILLIAMS

The current energy crisis, on the radar since load-shedding began impacting the country in 2008, has contributed to a change in thinking about the built environment. Add to this the attraction of lower operating costs and less dependability on the grid and it's little wonder that the move towards sustainable, efficient, eco-friendly buildings is gaining significant traction.

Buildings are responsible for around 40% of the world's end-use energy consumption and are among the main contributors to climate change. Energy efficiency and financial rewards aside, awareness and perceptions around environmental issues have changed and the once inefficient built environment is following rapidly as more buildings are becoming green.

Advantages of green buildings include energy and resource efficiency, a reduced carbon footprint and the ability to provide sustainable solutions for energy, water and waste. Over and above being the environmentally responsible choice, they also offer significant monthly cost savings.

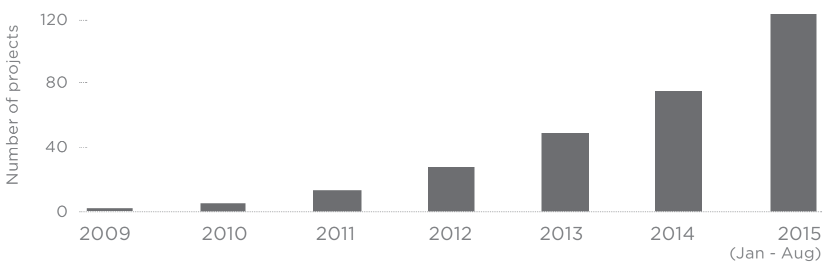
HOW GREEN ARE SA'S BUILDINGS?

Aside from two international properties, the Green Building Council of South Africa (GBCSA), which promotes and facilitates environmentally sustainable building practices, has awarded Green Star certification to 121 buildings in the country, 25 of those in the last three months alone (see graph below). It's a far cry from the single certification in 2009.

At 63%, 4-star certifications are by far the largest. "4-star, rated as South Africa Best Practice, is by no means an entry-level rating. It's extremely good and a tough mountain to climb," explains Brian Wilkinson, CEO of the GBCSA. Just over 8% of green buildings have been awarded GBCSA's highest rating, a 6-star certification. This world-class certification ranks alongside a LEED Platinum (US Green Building Council's highest certification for sustainable building) or any other rating system's top buildings.

USA, Canada and China hold the top three spots on the green building rankings while Sweden is 10th, with around 2.54m green square metres, just ahead of South Africa's 2m green square metres, Wilkinson tells *Finweek*.

NUMBER OF **GREEN STAR** CERTIFICATIONS BY YEAR



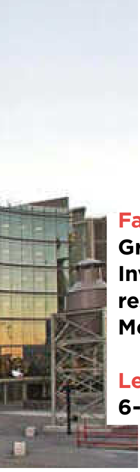
SOURCE: GBCSA

COMMERCIAL PROPERTY

The commercial sector has responded to energy challenges by demonstrating its commitment to sustainability and resource efficiency, with the bulk of the country's green buildings belonging to this sector.

Boasting the largest portfolio of green buildings of any company in South Africa is Growthpoint Properties, the country's largest real estate investment trust (REIT).

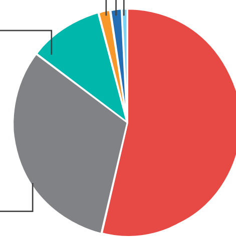
Growthpoint is not only acting as a responsible steward by embracing green building principles, but is doing well because these buildings are worth more, tenants are happy in them and they have lower operating costs.



Far left: **South Africa's first residential Green Star certification, Amdec Investments' 40 on Oak, 4-star residential apartment building located in Melrose Arch, Johannesburg.**

Left: **Growthpoint and V&A Waterfront's 6-star No 1 Silo office building.**

DISTRIBUTION OF **GREEN STAR CERTIFIED BUILDINGS** BY LOCATION



SOURCE: GBCSA

"This is the beauty of green. It is the opportunity to simultaneously do good [environmentally] and do well financially," says Wilkinson. That interconnection between environmental responsibility and financial reward is driving the green building movement in the commercial space. In addition to being able to command higher rentals, Emira Property Fund expects savings of up to 50% in water and electricity and operating costs by redeveloping its Knightsbridge property in Bryanston from an inefficient 1980s non-certified building into a state-of-the-art green P-Grade 4-star Green Star building.

THE RESIDENTIAL SECTOR

The pace of creating environmentally sustainable buildings within the residential space has been slow.

"We have awarded a green building rating to three residential projects, and they were all apartment buildings," confirms Wilkinson.

Private homeowners, already dealing with shrinking budgets and less likely than the commercial sector to take a long-term view, are often put off by initial investment costs of greening a home. But an ineffectual electricity grid, spiking energy prices, increased municipal costs, rising interest rates and stagnating salaries are likely to be key drivers in going green.

Come early November, GBCSA is launching EDGE (Excellence in Design for Greater Efficiency) a green building ratings system specifically designed for residential properties. Given that this "light" green building rating system is very easy to implement and requires no extensive training, Wilkinson expects 5 000 homes to be certified through EDGE by end 2016. "We expect EDGE to form as much as 50% of our organisation, certainly as big as commercial, if not bigger," says Wilkinson. GBCSA's My Green Home project demonstrates that behavioural change in a typical middle-class home can achieve an energy consumption saving of 29% at no cost to the homeowner. Upping the ante to include investment into renewable energy can mean the average family, spending between R1 000 to R2 000 a month on electricity, could save around 50% on monthly electricity costs.

Energy and water saving features add saleability to a property, according to Dr Andrew Golding, chief executive of the Pam Golding Property group, which has partnered with GBCSA in the My Green Home project. "Properties offering green or energy- and water-saving features as well as emergency or back-up power solutions are at a competitive advantage in the marketplace. These properties are becoming more sought after by buyers, in preference to properties that don't offer such features," says Dr Golding.

It seems that choosing a sustainable lifestyle not only positively contributes to the environment, but also makes good business sense.

"Our aim is to meaningfully influence the 'green agenda' in the domestic space not only because it will increasingly impact how our clients perceive value in property, but because our economic and social development depends on it. Homeowners and homebuyers are becoming more aware of the need to reduce rising energy and water costs as well as to help conserve the country's natural resources," adds Dr Golding. ■

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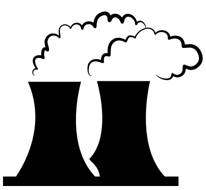
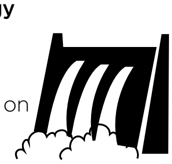
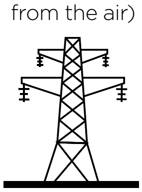
THE SAVINGS FROM 100* **GREEN STAR BUILDINGS**

- 176m kg of **carbon emissions** (equivalent to removing 44 096 cars off the roads or 5 000 fully-laden Boeing 747 flights travelling from Johannesburg to Cape Town from the air)



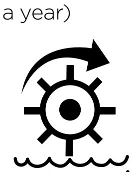
- R88m on **energy**
- R1.48m on **water**





- 131m kWh of **electricity** (equivalent to powering 9 130 households for a year)

- 171m litres of water (enough to provide 68.3m people with **drinking water** for a day)



* *1.8m square metres of certified* ***green space,*** *equivalent to 263 rugby fields*

SOURCE: GBCSA

Renewables: Saving SA billions

BY FINWEEK STAFF

As power-hungry South Africa waits for the endlessly delayed thousands of megawatts from Eskom's new Medupi and Kusile coal-fired plants, cheap renewable energy is quietly piling on capacity.

Eskom's desperate drive over the past seven years to bolster energy availability has seen a slew of mostly independently funded wind and solar projects being launched, many of which are already feeding the country's grid. By June 1 800MW of renewable power had been added, while the department of energy has allocated another 7 000MW for procurement from independent power producers (IPPs).

FALLING COSTS

The cost of power production from renewable sources has plummeted since the department of energy opened the competitive bidding process in 2009. In the first-round bids six years ago, wind power was snapped up at 115c/kWh, but by round two, bids came in at 100c/kWh. Round three saw companies bid their power at 74c/kWh, and by the time round four was reached in August 2014, the bid price had dropped to 62c/kWh.

The cost of solar power dropped from 275c/kWh in round one to 79c/kWh in round four.

In contrast, the expected cost of coal-fired power generation from Medupi is in the region of 128c/kWh. The final costs of nuclear power are forecast to be more expensive than coal.

The Council for Scientific and Industrial Research (CSIR) reported last month that renewable energy provided around R4bn in benefits to South Africa in just the first half of this year. The numbers were quantified by calculating how much the country would have lost – or would have been forced to spend – without access to these power sources.

In the report, the CSIR said the 2TWh (terawatt hours) produced by mostly wind and solar energy had replaced the electricity that would have otherwise been generated from the open-cycle diesel-fired turbines and coal-fired power stations. The research body calculated this to have been a saving of around R3.6bn.

WITH 3% OF REVENUE FROM THE PLANTS REQUIRED GO TO SOCIAL UPLIFTMENT, COMMUNITIES WITHIN A 50KM RADIUS CAN EXPECT R70BN IN THE NEXT 20 YEARS.

In addition, power from the country's solar and wind projects had saved the economy R4.6bn by negating the need for intensive power users to shut down operations.

The research body worked out that 203 hours of curtailment – also called "unserved energy" – had been avoided particularly in January when the supply was desperately tight. Between January and June renewable energy had helped delay load-shedding, enabled lower stages of load-shedding, or enabled Eskom to avoid implementing load-shedding at all.

According to Johan van den Berg, CEO of the South African Wind Energy Association, the cost to the economy of load-shedding stands at around R75/kWh. The benefits of renewable energy comes at a cost, however: tariff payments to IPPs amounted to R4.3bn from January to June this year. And because of Eskom's empty coffers, at least one functioning renewable power station can't be connected because the utility can't afford to put up the required transmission lines. This situation – costing Eskom about R2m a month – began in October 2014, but the infrastructure is expected to be functioning by next month.

A CLOSER LOOK AT THE PERCEIVED NEGATIVES

And while renewable energy might be cheap and clean, the downside is that it isn't always reliable. The sun doesn't always shine, the wind doesn't always blow as hard as it is required to, and in periods of low rainfall, hydro power becomes increasingly unavailable.

Critics say that for every megawatt of power renewables produce, another megawatt needs to be made available from traditional sources like coal, gas and diesel as insurance against the vagaries of the weather.

However, Van den Berg said this criticism isn't entirely accurate. Around two years of continuous assessment of wind availability and speed is carried out before a decision is taken to put up a plant. Van den Berg said that a range of wind harnessing technologies are now available. The choice of wind-

Getty Images/Gallo Images/Nardus Engelbrecht

harnessing technology depends on the norms established over the assessment period, and the success has been such that private sector funding has financed much of the second round of projects.

Evan Rice, CEO of GreenCape, a non-profit organisation that supports green businesses in the Western Cape, admitted that the drawback to solar power is that "principally it works only when the sun shines". He said this issue can be circumvented by including a storage system, but this doubles the upfront costs. Rice rationalised the energy limitation by saying the electricity system is "comprised of various technologies designed to operate for a certain percentage of the time". He said in any case, more capacity than is needed is always required to be installed.

OTHER ADVANTAGES OF GREEN ENERGY

Renewable sources of energy also have significant secondary benefits. Eskom's acting CEO Brian Molefe announced in April that the Sere wind farm, the first Eskom-funded large-scale renewable energy project to come on line, would reduce the country's carbon footprint by around 6m tons of greenhouse gas over its 20-year life span. This reduction increases exponentially with each 100MW renewable plant that is established. Sere's average annual energy production of 298 000MWh is "enough to supply about 124 000 standard homes", Molefe said.

Billions of rand in social benefits also flow from the renewable energy plants to local (and often deeply impoverished) communities.

The Northern and Eastern Cape regions, where there is an abundance of sunlight and wind, are some of the poorest in the country, and it is this possibility of change that Van den Berg said is the "most exciting".

With 3% of revenue from the plants required to go to social upliftment, communities within a 50km radius can expect R70bn in the next 20 years.

In a show of confidence in solar power operations, in March, the Public Investment Corporation (PIC) spent R22bn for 20% stakes in the Ilanga and Xina solar power stations respectively. The power stations, which are located in the Northern Cape, are expected to add 200MW of power to the grid. The PIC also lent R600m to the Ilanga project. ■

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Turbines at the Dassiesklip Wind Energy Facility Project outside Caledon in the Western Cape on 9 February 2014. The wind farm is built on 350ha, with nine 3MW turbines.

BUY SELL HOLD

METROFILE

The winner every time

BY SIMON BROWN

EVERY TIME this company releases results I write a house view on the stock and the conclusion is always the same: buy it. I haven't been taking my own advice, but as soon as this issue hits the stands, I will be a buyer.

Metrofile is a boring document storage company (both paper and digital), but boring is often good and in this case it really is. Companies have to comply with legislation that requires certain business documents to be stored, so Metrofile has a built-in business model. Furthermore, companies don't easily trust just anyone to store sensitive and important documentation; as market leader, Metrofile won't easily lose market share to others.

The company is very cash generative and what sweetens the deal even more for shareholders is a dividend yield of almost 4%. You get paid well to hold the share. The dividend jumped 40% this year as Metrofile reduced the dividend cover from 2 times to 1.5 times, meaning it paid out a larger chunk of profits as dividends. ■

Simon Brown
Last trade ideas

- BUY **TOPSBT**
- BUY **Mondi**
- SELL **Kumba Iron Ore**
- BUY **Vanguard ETF**

BUY SELL HOLD

DATATEC

ICT leader looking good

BY MOXIMA GAMA

DATATEC ENDED a decade-long consolidation when it traded through the R44.95/share level in July 2012. Now it's trading on the ascending phase of a pattern that could see it complete a 100% retracement to its R146/share all-time high in the long term (one to five years). An aggressive long is recommended at any level above R74.45/share, as Datatec would have escaped a near-term consolidation, which should prompt an advance to R90/share in one to three months. A decent 8% stop loss must be implemented at first, and trailed along. Its share price is up by 33% so far this year.

Datatec is an international information and communication technology (ICT) firm. Looking ahead, ICT solutions and consulting services will provide the group with multiple points of entry globally, and will also act as a good defensive hedge against the decline of any vendor, geography or technology in this fast-consolidating and dynamic market. Datatec, with operations in over 50 countries, reported a 13.3% increase in group revenue to \$6.4bn in the year to end February, with earnings before interest, tax, debt and amortisation increasing 17.7% to \$206.4m.

Recent acquisitions include Advanced Technology Integration Group (ATIG) – which provides system integration and professional services to enterprise and commercial customers across the Midwest region of the United States – and UK business intelligence consultancy, Trovus, as part of its strategic goal to grow annuity revenue streams and provide a broader range of ICT services. ■

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Moxima Gama
Last trade ideas

- SELL **Aspen Pharmacare**
- SELL **Naspers Limited**
- BUY **Telkom SA**
- SELL **Imperial Holdings**

An option for those seeking exposure to the **US economy**

BY JACO VISSER

PRUDENTIAL GLOBAL HIGH YIELD BOND FUND OF FUNDS

This fund is primarily invested in investment-grade debt instruments. Its biggest holding is in Prudential-affiliated Eastspring Investments' US Investment Grade Bond Fund. The underlying instruments in this fund are mainly focused on US industrial stocks, but the majority of the top 10 holdings are American banks. Eastspring's fund is run from Chicago and primarily sold in Asia.

FUND INFORMATION

Benchmark:	Barclays Capital Global Aggregate Bond Index
Fund managers:	David Knee and Michael Moyle
Total Expense Ratio (TER):	1.78%
Fund size:	R234m
Minimum investment amount:	R2 000 lump sum or R500/month
Contact information:	info@prudential.co.za or 021 670 5100

PERFORMANCE (ANNUALISED) AS AT 31 JULY 2015:

	1 year	3 years	5 years	Since inception*
Prudential Global High Yield FoF	7.6%	15.6%	13.9%	9.2%
Benchmark	10.5%	13.9%	13.2%	9.2%

**Since inception in November 2000*

TOP FIVE HOLDINGS (AS AT 30 JUNE 2015, UPDATED QUARTERLY)

1. Eastspring Investments US Investment Grade Bond Fund	**37.1%**
2. M&G European Corporate Bond Fund	**26.1%**
3. Japanese Yen	**14.8%**
4. M&G Strategic Corporate Bond Fund	**10.9%**
5. PowerShares Senior Loan Portfolio ETF	**3.8%**

Fund manager insights

The mandate for the fund is investment-grade bonds, according to David Knee, one of the fund's managers. The credit quality of the fund is on average A, he said. A ranking of A- and higher by a credit rating agency such as Moody's Investor Service shows that there is a high probability that the issuer of the bond would be able to repay its obligations, including the capital and interest.

"In the medium term we think these assets will perform well," Knee said. Corporate bonds tend to perform poorly in an environment where interest rates are increased and a recessionary cycle kicks off, according to him. He didn't foresee that happening at the moment despite the global economy enduring "headwinds" such as the slowdown in the Chinese economy and lacklustre growth in Europe.

"In recent years investors have allocated a lot to corporate bond assets in the search for higher yield," Knee said. After the financial crisis and subsequent global recession in 2008 and 2009, central banks across the world lowered interest rates to historical low levels in a bid to boost economic growth. Investors flocked to high-return assets such as equity in emerging markets and corporate bonds.

WHY *FINWEEK* WOULD CONSIDER ADDING IT

The US economy, to which the fund is skewed, is creating jobs and wealth at a pace last seen before the financial crisis. As the country's export-orientated manufacturing companies regain market share lost to China in decades past, both industrial and financial issuers of debt are in a stronger position to service and repay these borrowings. In addition the fund is a rand hedge, which goes a long way in protecting local wealth in a devaluatory environment. ■

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Lessons learnt from the **'Black Monday'** panic

BY SIMON BROWN

Black Monday. Market crash. The end of the world. These are just some of the comments that were being tossed around on 24 August as global markets went into sell mode. At a stage, the Dow Jones was some 10% down over two trading days while even the local Top40 Index was off almost 8% over the Friday/Monday sell-off period.

While all this was happening, the rand traded at its worst level ever as it briefly went through R14/USD, breaching the R13.61/USD worst level from December 2001.

But was it really all that bad and, more importantly, what can we learn from the frenzy?

The first lesson is to be sceptical; just because Twitter is screaming about a Black Monday doesn't mean it is a Black Monday. Black Monday refers to that day in October 1987 when the Dow Jones lost 22.61% in a single day. That was a Black Monday. A day that saw 3% losses locally and some 3.5% down in the USA doesn't compare. At most, it was overcast with no chance of rain. In fact, the sell-off we've seen during August has only taken our market back to levels we were at in late 2014; compared to 1987 or the more recent 2008/09 market sell-off, it's nothing.

The real issue here is what we can learn from the panic that spread across the internet in general, and social media in particular. Here I ask you a simple question. How did you feel when you heard the hype and saw all the red on your portfolio? Fear? Indifference? Greed?

If you felt fear, then there is a problem and that problem is simple: you have too much risk. Any position in the stock market has risk in that you can lose money, what you have to do is make sure you manage that risk to a level where you can sleep well at night (we call this a SWAN portfolio). Even the simplest of exchange-traded funds (ETFs) carry risk, but that risk needs to be reasonable.

What we tend to do is take on too much risk in an attempt to get rich quickly. In some cases this will include derivatives but will also include a lot of stocks that are struggling to make profits, which we hope will turn around and zoom higher, making us a pile of cash in double-quick time.

Nice in theory, but the reality is that markets go up and down and we need to be prepared for both events. If we're heading down, how's your portfolio doing? Red is fine, everybody was red on the 24th. How much red and how you felt is what matters.

Have a long hard look at your portfolio and see where the fear came from and start to fix it. Sell those dogs that you 'hope' will recover but, if you're honest, likely never will. Have an equally long hard look at the second tier of good, but not great stocks (I mean good as in business model, not price moves) and revisit why you bought them and decide whether you should really still be holding them. Then act on this and spring-clean your portfolio.

A last comment: where to next? Do we continue lower, or do we rally to new heights? The honest answer is I have no idea; in fact nobody has any idea. Sure, everybody has an opinion, but trust me, nobody can see into the future. ■

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Traders signal offers in the Standard & Poor's 500 stock index options pit at the Chicago Board Options Exchange (CBOE) on 24 August. Uncertainty among traders after big losses in the Asian markets caused a sharp drop in the S&P at the open.

Scott Olson/Getty Images

Are things looking up for **Murray & Roberts?**

BY MOXIMA GAMA

The idea of investing in any construction stock at this stage may seem reckless, as the fundamentals of the industry are still looking dire. The JSE's Construction and Materials Index is down 46% over the past year, and the country's major construction companies continue to struggle due to low demand. Many also faced hefty fines related to tender-rigging and price-fixing following investigations by the competition authorities.

Aveng, the biggest group based on revenue, warned in August that further restructuring may be required – it cut 6 000 jobs last year – unless it secures more contracts before year-end. Basil Read, which also had to restructure operations after reporting a loss of R821m in the 2014 financial year, reported improved earnings for the six months to end June, but said it is consulting a private lender to provide working capital.

For Murray & Roberts (M&R), the story hasn't been much different. It reported a decline in revenue and earnings for the year to end June, and warned that the 2016 financial year will be even more challenging as the expected growth in underground mining will not be sufficient to offset the expected decline in the contribution from its oil and gas business.

"The declining order book over the past two years reflects the reality of a subdued global economy and weak demand for commodities, coupled with low investment in fixed capital formation in South Africa," M&R said.

Due to the lacklustre demand locally, the group is transforming from being predominantly a South African engineering and construction company to an international group focused on the natural resources market sectors. The group operates four segments: Infrastructure & Building, Energy & Industrial, Underground Mining, and Oil & Gas. The group operates in Southern, Central, and Western Africa; the Middle East; Southeast Asia; Australasia; and North and South America.

Despite the company's weaker performance, CEO Henry Laas tried to assure investors that the group did well to maintain earnings broadly in line with the previous financial year – it also maintained its dividend – and that M&R continues to adjust its cost structures according to market requirements.

Though M&R's share price is down 41.6% since the start of 2015, it is likely to retain key support that will possibly trigger a reversal, given its extremely undervalued nature (according to its monthly relative strength index, or RSI).

POSSIBLE SCENARIO: A bullish base could be in the making between R15/share and R11.70/share. Upside above R15/share would kick-start the ascending phase towards the R22/share resistance level of a potential bottoming-up pattern in six to 12 months.

With the RSI trading in a symmetrical triangle, trade may be volatile in the near term. But if the lower slope of the RSI triangle holds, with support retained at R11.70/share – a positive breakout above R15/share would be imminent. Investors could nibble at R15/share and increase long positions at every resistance level breakout thereafter. Also keep an eye on the price of Brent crude oil, which is set to recover from its lowest levels.

ALTERNATIVE SCENARIO: Refrain from going long if the R11.70/share key support level is breached, as downside to the R9.40/share or even R6.05/share prior lows could ensue. ■

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MURRAY & ROBERTS

52-week range:	R11.67 - R25.52
1-year total return:	-52.64%
Current P/E ratio:	6.06
Market capitalisation:	R5.71bn
Earnings per share:	R2.12
Dividend yield:	3.89%
Average volume over 30 days:	1 526 151

SOURCE: Bloomberg.com

Simon's stock **tips**

BY SIMON BROWN

ASPEN UPDATE DISAPPOINTS

Stephen Saad
Group CEO of Aspen

Aspen snuck through a trading update just before 6pm on Friday, 28 August, and it was a downer – the company expects headline earnings per share (HEPS) to be only 10% to 15% higher. With its mid-year HEPS up 28%, it means a seriously weak second half of almost no HEPS growth. In percentage terms, the company's HEPS growth is typically in the mid to high twenties, and that justifies the high price-to-earnings ratio (P/E) of 30 times. This time, its performance did not live up to expectations. That said, this could either be a one-off or it could be an indication that the company is maturing – as it gets larger, it is harder for it to continue growing at that level. The results will tell us more, but those who've always been Aspen fans shouldn't give up – it's still a great company in a great space. Even if there is lower growth going forward, Aspen is likely to be a great investment – it just won't double in value every year or so as it's done recently. My only concern is how management treats shareholders – this is not the first time shareholders have had it rough.

PAN AFRICAN RESOURCES KEEPS COMMUNICATION CHANNELS OPEN

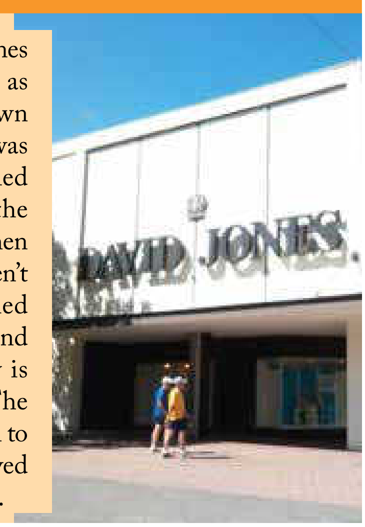
A Sens from Pan African Resources shows exactly how management should be keeping shareholders informed. A company called International Ferro Metals (SA) has gone into business rescue and Pan African has its Phoenix Platinum plant on its property. It also sources power, water and some feedstock from International Ferro Metals. So there is a potential risk to Phoenix Platinum. Pan African detailed everything in a Sens including the fact that Phoenix contributed about 7% to after-tax profits in the last reporting period. This really is about keeping shareholders informed and is exactly how it should be done.

MASSMART'S EXCUSES CONCERNING

Massmart returned results that were all right, but full of excuses, and if I were a shareholder I would be concerned about those. Sure, it is tough out there, but a list of excuses is not what one wants from management. (Also see page 18.)

WOOLIES' DAVID JONES ACQUISITION SERVING IT WELL

As a shareholder in Woolworths* the David Jones deal looked great to me, but I was concerned as these large deals always take longer to bed down than management suggests. While Woolies was saying it would take three years, I was worried that it may take longer. I gave the retailer the benefit of the doubt by taking up my rights when it issued shares to find the transaction, but haven't been buying more. Yet management returned great results from both the local operation and from David Jones, indicating that it really is serious about making this work smoothly. The shares remain expensive, but if they come down to my entry level, I will be a buyer, having removed my non-buying status on concerns of the deal.



CONSTRUCTION: WHAT DO SHRINKING ORDER BOOKS MEAN?

With a number of construction companies having released results, one thing has struck me: order books are shrinking. This is not a bad thing at all; in fact one could say that order books stats are largely useless and really just about vanity. The biggest issue with an order book is that margins on work done are never disclosed. Further, shrinking order books suggest two things. The obvious one is less work. However, we hope that they also indicate that the companies are being more selective about what work they take on, in other words work with better margins and less risk of loss-making contracts. Time will tell if the smaller order books are healthier, but regardless, I continue to stay away from the sector as it remains tough no matter what space or geography the companies operate in. ■

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**The writer owns shares in Woolworths.*

Torre still expanding in a difficult environment

BY STEINMAN DE BRUYN
Director at Capilis Asset Managers

Torre Industries, a relatively small and unknown listed company with a market capitalisation of R2.4bn, is an industrial group that provides equipment, parts, financing and support services to customers throughout Africa.

The company replaced the listing of SA French, led from the start by its current CEO, Charles Pettit, in November 2012. SA French still operates as a subsidiary under Torre, and is the leading distributor of tower cranes and lifting solutions in sub-equatorial Africa.

From there on it embarked on an acquisitive spree, where it acquired numerous companies as part of its business strategy to diversify its operations and eventually operate a defensive business model.

One of its most recent deals was finalised in April 2014, when it acquired Control Instruments Group (now known as Torre Automotive), a company that owns and sells exclusive premium branded aftermarket automotive parts including Gabriel, the leading ride control system in Africa. Although Torre has been very actively acquiring new companies, it has a continued focus on organic growth, which seems to be working very well for the company, and the shareholders.

The group said in a trading statement on 28 August that it expects headline earnings per share (HEPS) for the year to end June to be between 29c and 30.4c a share, up between 140% and 150% from the previous year. It has been able to create tremendous revenue and profit growth in an increasingly difficult economic environment, with the share price up more than 300% since its listing three years ago.

Another interesting note is that Stellar Capital Partners, a company billionaire businessman Christo Wiese is involved in, has acquired a strategic 26.25% stake in Torre, with talks underway to acquire a further 8.33%. We wait to hear more details on the strategic nature of the deal, but are sure it will be to the long-term benefit of the shareholders.

The share has been trading sideways for a while now, but we believe that investors are still wary of the state of the economy, especially considering the industry the company operates in, and waited to see if Torre can deliver another impressive set of results. We believe that the share price should move up to at least R6 (from R4.75 at the time of writing), which would give it a historical price-to-earnings ratio (P/E) of around 20.

With management indicating a minimum HEPS figure of 42c/share for the 2016 financial year, the share is trading at a one-year forward P/E that is too low for a share showing such continued high growth. Although we are not the biggest fans of the sectors the company operates in, we believe it still has a long way to go before its earnings start to mature. We have been accumulating Torre at current levels, and still recommend it as a buy. ■

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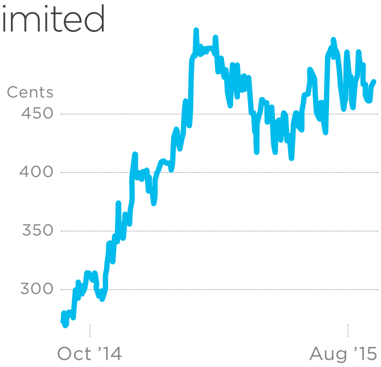
Charles Pettit
CEO of Torre Industries

Torre Industries Limited



52-week range:	R2.65 - R5.49
Price/earnings ratio:	38.84%
1-year total return:	+66.45%
Market capitalisation:	R2.38bn
Earnings per share:	R0.12
Dividend yield:	0.74%
Average volume over 30 days:	38 360

SOURCE: Bloomberg.com

What to do now that the bear has reared its head

BY SCHALK LOUW
Portfolio manager at PSG Wealth

After the local stock market's historical price-to-earnings ratio (P/E) had reached levels just short of 19.5 in April this year – and most experts felt that the FTSE/JSE All Share Index (Alsi) still had more than enough room for improvement – the markets decided that this month was the time to bring the share prices in line with the actual earnings of the underlying shares (see my analogy in *Focus on the earnings, not the share prices*, 9 April edition). At the time of writing, the market is down by 8% so far this August and down 13% since its all-time high in April, making it safe to say that we now officially find ourselves in a correction.

One of the strongest technical indicators, the 'Death Cross' (50-day moving average breaking the 200-day moving average and closing below it), has since come about. In technical terms, this means that we have turned from a bull market to a bear market, which isn't seen as a positive sign for technical analysts and their followers. The big question, however, is whether this is merely an overreaction, or perhaps an indication of greater troubles to come.

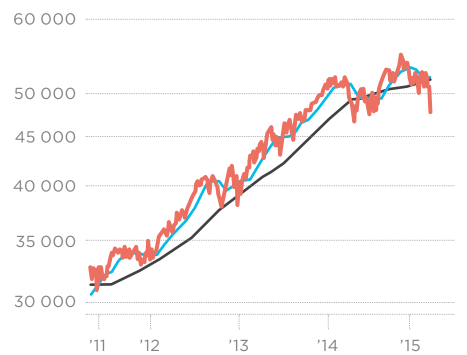
I still feel that the market isn't cheap and that it remains overvalued by approximately 15%. Following the occurrence of the Death Cross, the moving average of the weekly close over 200 weeks may be tested, which would correspond with the fair value levels (in terms of earnings per share) of between 42 750 and 43 300 on the Alsi. Although the data and results concerning emerging markets do not look very promising, I don't think it's bad enough to be seen as a repeat of the 2008 correction. I think it can be seen as more of a 'healthy' correction, rather than a total collapse.

FTSE/JSE All Share Index and Fair Value

EPS Model "Fair Value"
FTSE/JSE Top40 Index

SOURCE: PSG Old Oak, INET BFA

FTSE/JSE All Share Index with 200-day and 50-day moving average



FTSE/JSE All Share Inde
50-day moving average
200-day moving average

SOURCE: PSG Old Oak, INET BFA

SO WHAT CAN WE DO IN THE EVENT OF THIS BEING A 'HEALTHY CORRECTION', WITH THE POSSIBILITY OF HITTING EVEN LOWER LEVELS?

YOU'LL NEED THREE Ds:

1.DEEP BREATHS

Keep your emotions out of your investments.

If you bought shares within your particular risk profile based on an appreciation process that indicated that these shares should provide you with the appropriate growth and earnings over the long term, you will just have to lie back, be patient and breathe deeply.

2. DIVERSIFICATION

One of the best ways to safeguard your investments against excessive volatility is by means of proper diversification – not only across different companies and sectors, but also across different asset classes. Warren Buffett mentioned that investors shouldn't shy away from hiding in cash every now and then.

I personally feel that negative markets present you with the perfect opportunity to ensure that your portfolio diversification is still in line with your risk profile.

3. DEFENCE

Even though the market isn't cheap, there are already a number of companies that are starting to offer good value. Look for companies that do not have excessively high ratings, that pay high dividends (which have been well maintained over the long term) and do not have high debt levels.

There probably isn't such a thing as a 'good correction', but the fact remains that a correction is as much a part of the stock market as butter goes with bread. As such, use this correction to get your portfolio back in line and to ensure that it remains 'healthy'. ■

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Commodity stocks can generate big profits

...the secret is patience until the shake-out is over

BY LUCAS DE LANGE

A bear market will eventually run its course and attempts made by the authorities to prevent this will at best only temporarily relieve the pain for investors. This is apparent from a study by an international market analyst, Harry D Schultz, of a period that covers a century. He uncovered certain "truths" that he believes will always apply.

One of them is that a bull market reaches its true end in the midst of wild speculation during which novices "play" the market, often with borrowed money. They do indeed make quick profits without having any idea of the underlying value of the companies concerned.

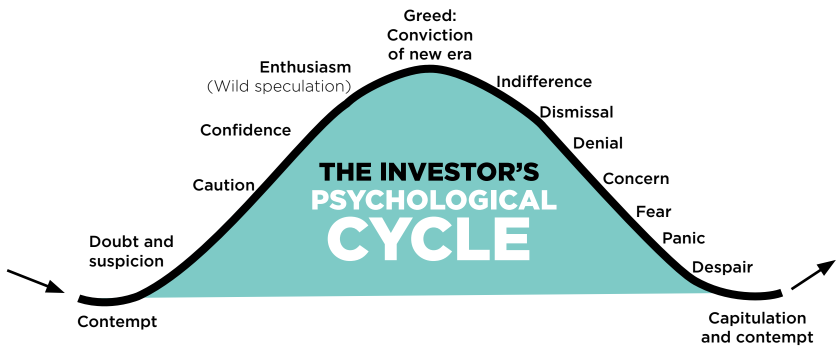
This has been called a fools' market – a new fool buys from an existing fool, while the price keeps on rising, until the last fool has bought. Then the market implodes until the shares concerned again offer good value, which attracts the well-informed investor.

In the West, including on the JSE, wild speculation has not been evident.

A drop of about 1 000 points in the Dow Jones Industrial Index has, however, attracted everyone's attention.

From articles that have appeared since the Chinese share market took a major dive after a period of wild speculation, it would appear that no one is expecting the bull market to resume, no matter what steps the authorities take. According to Shanghai's Composite Index, the market dropped by about 47% before the authorities' actions helped it to recover by some 10%.

Is the market, which is being watched by the whole world because the Chinese giant plays such an important economic role, going to follow the path that Schultz claimed was inevitable? What is different in China's case compared to the West, is the tough measures taken by the Chinese government.



THESE INCLUDE:

- Large investors have been forbidden to sell their shares for a period of six months.
- An enormous amount of money (the so-called bazooka) has been made available for loans to people who want to buy shares.
- Traders who have been trying to sell shares short as they are expecting a further drop, which means they can buy in at a lower price, have been threatened with arrest.

Schultz found that bear markets are essential so that values can recover. Short sales accelerate this shake-out process, after which calm seems to descend before a new bull market carefully recommences. How can this happen if the above-mentioned measures are in place? Or is it simply going to lead to an extended bear market amid great volatility? The London Stock Exchange is on the cusp of a bear market, measured in terms of its FT100 Index, because commodity companies play an important role in its composition. The index has weakened by about 19%, while 20% is regarded as a bear market. At the same time, the FT100's 200-day exponential moving average has turned downwards. As the shake-out process often releases great value, exceptional profits can be made by those who have the courage to buy amid doom and gloom. And exceptional value is currently increasingly being offered by commodity shares.

On the JSE, large commodity groups are experiencing a severe bear market with companies like Assore and Kumba tumbling by between 80% and 90% from their historic highs. Lonmin shows a loss of close to 99%, although the group has valuable assets as the world's third-largest platinum producer.

The secret of making money from a turnaround in a bear market is to be patient. Only buy quality shares that form sound bottom formations in their graphs such as an inverted head and shoulders, double bottoms and saucer formations. ■

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Retirement reforms to cultivate a **culture of saving**

BY BUHLE NDWENI

Failure to adequately save for retirement puts strain on government's budget as more pensioners become reliant on state pension and social grants. In order to encourage employees not only to save, but to ensure they have enough for a comfortable retirement, the government introduced retirement reforms in July.

The National Treasury recently took the first steps towards implementing policy proposals that would lower charges of saving towards retirement while improving industry conduct to serve the best interest of retirement fund members.

These reforms will ensure that employers provide good value-for-money retirement savings plans in employee contracts, and that employees belonging to a retirement fund are treated fairly and their money is managed well by the retirement fund's board of trustees.

Speaking at the Annual 10X Retirement Fund Conference in Johannesburg in July, Olano Makhubela, chief director of financial investments and savings at the National Treasury, said the draft default regulations aim to encourage savings and ensure people are not vulnerable to poverty while working and in retirement. "This encourages employees to preserve their savings when they change jobs, while giving them the right to opt out," said Makhubela. "It doesn't serve to try and help people save and accumulate during their working lives only for them to have a lump sum at the end, spend it quickly and be impoverished later. The idea is to see how best we can encourage people to annuatise, rather than take their entire benefits through cash lump sums."

Annuatised investments refer to income payments made to a beneficiary periodically. Such investments, depending on the annuity policy, are not completely paid out to the beneficiary.

DEFAULT OPTIONS

The drafted default regulation proposes retirement fund defaults, which members automatically fall into, and provide value for money for their investments leading to retirement. But fund members can opt out of the default.

"IT DOESN'T SERVE TO TRY AND HELP PEOPLE SAVE AND ACCUMULATE DURING THEIR WORKING LIVES ONLY FOR THEM TO HAVE A LUMP SUM AT THE END, SPEND IT QUICKLY AND BE IMPOVERISHED LATER."


Gallo Images/iStock

Fund boards, according to the default draft regulation, must be able to demonstrate to the registrar that, among other things, the default investment portfolios are appropriate for members who are automatically enrolled. Furthermore, the objective composition and performance of these portfolios must be adequately communicated to members; must be good value for money; all fees and charges and their impact on members' benefits must be disclosed accurately and regularly; performance fees are not to be allowed, and members aren't to be locked into the default investment strategy.

Makhubela said designing good default products and systems is likely to yield positive outcomes. Individuals tend to stick with the default rather than exiting, although that right will always be available to them.

"We think this will take us a long way in starting to establish a system with products that are simple, effective, transparent and enables retirees to understand and be in touch with their retirements during accumulation and up to retirement," he said.

According to director of retirement funds at the Treasury, Alvinah Thela, the default regulations aim to encourage the industry to act in the best interest of the customers, and not only to profit.

Currently, when people exit jobs, they receive a cash lump sum without being advised regarding their options. "If a member leaves the fund, they should have the option of being a deferred pensioner or a paid-up member. Options are to withdraw, leave it there or take it into a preservation fund or move it with them to a prospective employer's fund," said Thela.

There should be a drive in the industry to advise members or customers that should they withdraw, taxation will significantly reduce the fund amount reflecting on their statement, she said.

When transferring funds into a preservation fund, the person needs to be advised that they will only have one withdrawal in the lifetime of that benefit, according to Thela. Also, if they move it into a retirement annuity fund, they will not be able to withdraw it.

The Treasury hopes the Taxation Law Amendment Act legislation will be effective as of 1 March 2016. It is currently in the consultation phase of the default draft regulation and submissions can be directed to Thela at retirement.reform@treasury.gov.za by 30 September. ■

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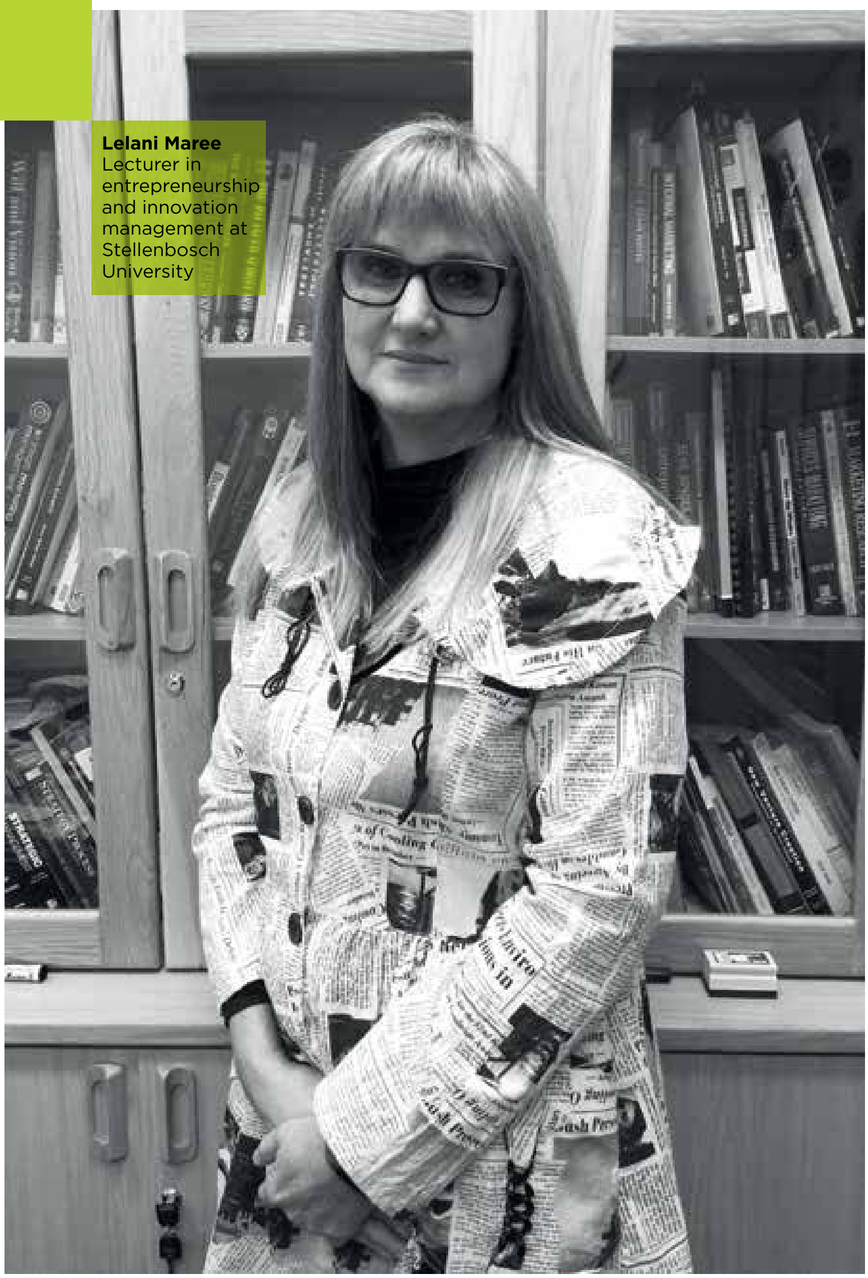
NEW SMALL BUSINESS SERIES

Identify **a gap in the market** and grab it

BY JACO VISSER

Starting your own business can be daunting. Success requires dedication and stress can weigh heavily on you. However, seeing your idea become a business reality is very rewarding. Follow *Finweek*'s series on starting your own business, aimed at unpacking the entrepreneurial adventure.



Lelani Maree
Lecturer in entrepreneurship and innovation management at Stellenbosch University

Starting your own business begins with selling your first product or service to someone with a need for it. It's as easy as that. Identifying a need in a market requires fine observational skills and the ability to keep your ear to the ground.

The core purpose of any business is to generate a profit – the effort of starting or investing in the enterprise must be worthwhile for the owners. Businesses aren't started to employ people or pay taxes; these are consequences of running an enterprise.

People start a business for different reasons, according to Lelani Maree, a lecturer in entrepreneurship and innovation management at Stellenbosch University. They take the leap to doing their own thing depending on their situation.

"In South Africa, you get people who must make a living," she says. "We call this survival entrepreneurship and these entrepreneurs usually start out very small by identifying a need for a product or service in the market."

André Fourie, founding executive chairman of Poynting Antennas, a company that identified the gap for

WHEN SOMEONE HAS FOUND THEIR PASSION, IT IS POSSIBLE THAT THEY COULD BECOME AN ENTREPRENEUR.

wireless antennas in the early 2000s, agrees that most entrepreneurs in SA start up due to financial need.

Another type of entrepreneurship is corporate sector workers who start up a business using the skills they have garnered. Their experience in a certain field of products or services often affords these potential entrepreneurs the chance to supply a more advanced product or service to the market than those already available, says Maree.

When someone has found their passion, it is possible that they could become an entrepreneur, according to Maree.

"It is very important to be happy in what you're doing," she says. Whether or not people are born entrepreneurs is too difficult to answer; too many factors play a role in setting up the entrepreneur, she says. These include a person's life experience, resilience and interests.

Starting up a new business venture, whether you're a corporate worker or a survivalist, isn't easy. Maree says it takes a lot of research to determine whether there is a need for a product or service in the market. In essence, the potential entrepreneur needs to identify whether there are a lot of people already supplying the market with the product or service and whether they could offer something different for which customers or clients are willing to pay.

Fourie's Poynting Antennas, which was formally started in 2000 after nearly five years of research and development, identified a new so-called disruptive entrant to the information technology environment – namely wireless internet. Today, it's hard to imagine that as recently as 15 years ago this technology was in its infancy.

"It was a niche market," Fourie says of the radio technology market on which wireless internet is based. "We realised that wireless internet would enter the consumer market. And it happened. As the cost of the radio technology equipment fell, the cost of antennas became a larger portion."

The company listed on the JSE in 2008 and Fourie is in the process of buying out his original antenna business in which he still sees growth potential.

Fourie says that someone who becomes an entrepreneur to get rich quickly is doing it for the wrong reason.

"You need to decide what you would like to achieve, above making money. Do you want to revolutionise an industry?" ■

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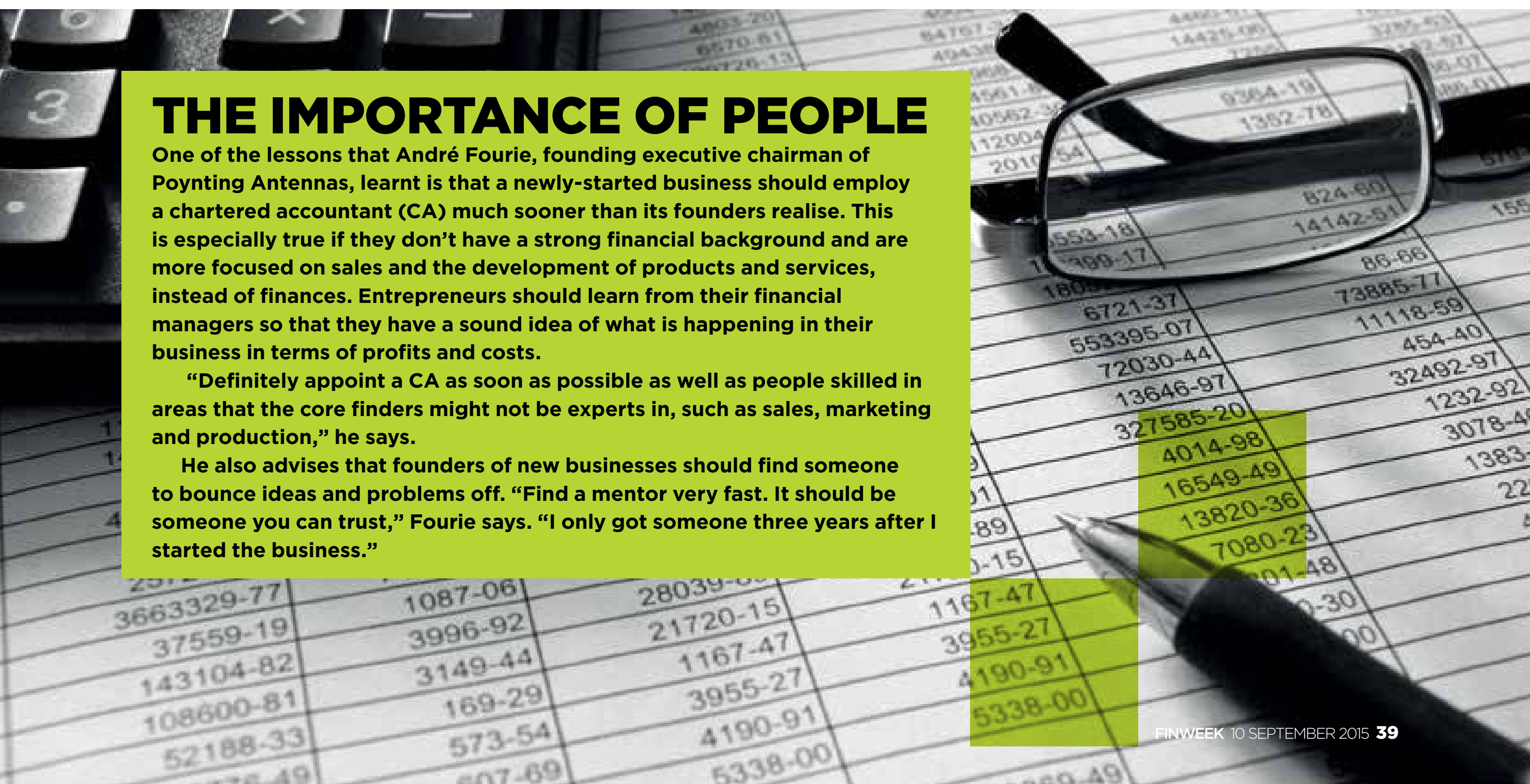
TIPS BEFORE YOU START

Lelani Maree, lecturer in entrepreneurship and innovation management at Stellenbosch University advises:

- Identify an opportunity. Without an opportunity to supply a product or service in the market, you won't be able to start.
- Be certain that there is a market.
- Do thorough research to determine the size of the customer base and the number of competitors.
- Be sure you are able to deliver the product or service, especially if you plan to manufacture a product. Ask yourself whether you have the skills to do it.
- You should be able to think on your feet and make plans in an instant.
- You must have perseverance; success and profitability take time to arrive.
- You need to have the ability to manage resources, including money and people.
- You should work in your business yourself and be involved in all aspects of it.



THE IMPORTANCE OF PEOPLE

One of the lessons that André Fourie, founding executive chairman of Poynting Antennas, learnt is that a newly-started business should employ a chartered accountant (CA) much sooner than its founders realise. This is especially true if they don't have a strong financial background and are more focused on sales and the development of products and services, instead of finances. Entrepreneurs should learn from their financial managers so that they have a sound idea of what is happening in their business in terms of profits and costs.

"Definitely appoint a CA as soon as possible as well as people skilled in areas that the core finders might not be experts in, such as sales, marketing and production," he says.

He also advises that founders of new businesses should find someone to bounce ideas and problems off. "Find a mentor very fast. It should be someone you can trust," Fourie says. "I only got someone three years after I started the business."

After burnout, **Rafiq Phillips** reboots

BY MANDY DE WAAL

Overwork and prolonged stress is a serious health hazard, as digital marketing consultant and social entrepreneur, Rafiq Phillips, discovered last year. After spending six weeks in hospital, and taking some time to recover from burnout, Phillips has radically rebooted his life.

Rafiq Phillips is sharing his experience so that others may learn to try and create a better work/life balance for themselves before it is too late.

Image by Jon Pienaar

Rafiq Phillips was at the top of his game. He'd worked for multinationals as a technology research and development specialist, and had garnered an enviable reputation for being brilliant at search. In a world where Google is king, search is a big deal for companies wanting to expand their virtual footprint.

After working with a global digital agency until 2008, and at a top global media company for five years after that, Phillips decided to go into business for himself. He had the opportunity to grow a marketing agency with a partner. Phillips joined as SEO operations director and quickly turned the marketing business around. But the former digital dream kid stopped having fun pretty quickly.

In his early thirties, Phillips's life quickly turned into an obsession with work.

"I partnered with someone in a digital agency and everything was going well, until greed got in the way," he says.

"My business partner wanted more and more money. But making more money meant that I needed to do more and more work. Yes, we were making money and the business was doing well, but I was literally working from sunrise to sunset and beyond."

Phillips reckons that burnout is very common in the technology and digital industries. "A lot of people in the industry have been through something similar. There is a fair amount of burnout in this sector – people just don't readily talk about it," he says.

"It got too much for me," he confesses. But it wasn't just the work that was causing him to suffer. "My morals and ethics were completely different from those of my business partner. This created an enormous amount of stress for me. The result was that I burned out. Although the ethical clash added stress, Phillips attributes the main cause of the burnout to him overworking.

For most of 2014 Phillips felt exhausted. "Eventually I was on the edge of a nervous breakdown. I couldn't handle it anymore, and I resigned. After that I had to be admitted to hospital. My body just crashed," he says.

"On the day I was admitted I was extremely anxious and paranoid. I live in the middle of the city and even the noise of the traffic was getting to me. To me, this was a huge sign that something was wrong. The sounds of the city – the sounds that I had loved – were getting to me. The things I enjoyed became things I started to fear. That's when I knew I had to step out of my life. Or at least do something to change it," he says.

Phillips, with the support of his family, admitted himself to hospital – where he was diagnosed with bipolar mood disorder. "I spent weeks and weeks in hospital, but when I came out I realised that there is more to life than merely working for money. My relationship with money has changed. Now what I need is enough for me to put a roof over my head and to prosper, but money is no longer the be-all and end-all of my existence. It is no longer the main motivator for what I do or who I am."

Phillips says he doesn't consider himself an entrepreneur, but rather thinks of himself as someone who likes trying things out. "I would say that I am a social entrepreneur. I like doing things that have a bigger impact than just making money," Phillips says pensively.

WHAT IS BURNOUT?

Experts say that burnout isn't exclusively caused by overwork, but chronic multiple stress is a major factor in causing the exhaustion and unhappiness that characterise burnout.

Cary Cooper, distinguished professor of organisational psychology and health at Lancaster University, tells *The Guardian* that the signs of burnout can include behavioural changes. "You used to have a good sense of humour, and that goes. You used to be a good listener, and you lose that ability. It can lead to physical health problems; you might have trouble sleeping, have gastric problems or begin eating too much or losing your appetite. It can lead to clinical depression."

Dr Almuth McDowall, lecturer in organisational psychology at Birkbeck, University of London, says that people often allow problems to drag on for years. "People often become emotionally and physically exhausted, there is a sense of listlessness. They often start to retreat into their own shells, and treating people like objects because they can't relate to others. Then there is the feeling that they can't do their jobs well anymore," she tells *The Guardian*.

Still a search marketing consultant, Phillips is also focusing on building a project called iDRIVE.co.za. "iDRIVE.co.za helps people who are learning to drive by linking them up with credible driving instructors across South Africa. It has been a side project of mine for 10 years, but I have decided to take it from being a hobby to being a full-time business," he says.

"There are so many people in SA who need to learn how to drive, so the market is massive. We reach about 150 000 people a year," Phillips says. "The revenue is generated from the driving schools that pay for all the leads they receive. Basically this is a freemium business with a cost per acquisition, or cost per lead, which is paid by the driving school."

When not working on turning his hobby into a mainstream business, Phillips has been keeping a lower profile on social media and engaging in healthy pursuits. "I have bumped my head too many times to waste my time being arrogant. I am confident; I believe in myself and the businesses I am building, but I no longer feel the need to show off. I am a lot more subdued than I used to be and I have changed my entire approach to how I do things in the technology space. I've now decided that I am rather going to do more and talk less."

The six weeks that Phillips spent in hospital were life-changing. "It has been an amazing journey and some of the people I met in hospital were very interesting. It also helped me see other people getting their own lives back on track and made me realise that I have so much to be thankful for. I do feel that the journey back to wellness is a long one," he says.

Phillips openly admits that he still spends "too much time on the internet, particularly watching videos and documentaries. But nowadays I also get exercise. I have been running and recently completed the Impi Challenge." A trail run set in the Cape, the Impi Challenge is an obstacle course that tries people's athleticism, while testing their mental and emotional capabilities.

Finally there's one thing that Phillips has learnt that's made a big difference to keeping his work/life balance sane. "I say no a lot more than I used to. I always used to say yes in the past, no matter what my schedule looked like, because I had a really big problem turning work away. Now I consider my schedule and the amount of work I have in hand very carefully before committing to any new work. I realise now that there is only so much that I can fit into one day. It has been a big learning curve, but I have learnt to say no." ■

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COMMON BURNOUT SYMPTOMS CAN INCLUDE:

- EXHAUSTION
- LISTLESSNESS
- COGNITIVE PROBLEMS
- NEGATIVE EMOTIONS
- DETACHMENT OR EMOTIONAL BLUNTNESS

Burnout can seriously affect one's health, psychology and relationships, which is why getting help is critical.

HOW TO AVOID BURNOUT:

Nathaniel Lambert, assistant professor in the School of Family Life at Brigham Young University and associate editor at the Journal of Positive Psychology, says there are ways to prevent burnout:

1. Take care of your physical health. Eat well and ensure you don't skip meals or substitute meals with junk food. Exercise routinely, if not daily. Make time to get outdoors and to play, or spend time with your family, children or animals.
2. Make sure you're getting enough sleep and maintain good sleep hygiene, which means not using cellphones, tablets or computers just before going to bed. The best way to establish a good night-time routine is to retire with a book. Make sure you get enough sleep every night.
3. Try and engage in a hobby that takes your mind off work, and that enables you to relax and play.
4. Be social. Spend time with friends playing games or sports, having fun, or being in nature.

Battle for the **cloud**

BY GUGU LOURIE

Cloud is modernising and streamlining the way in which repeatable solutions and services are delivered to clients. South African telcos operating in Africa are catching on and big industry players are marching to the virtual battleground in an effort to diversify revenues streams.

Telkom's acquisition of technology firm Business Connexion (BCX), a big move towards cloud services, will help the parastatal address the information technology and communication (ICT) needs of local businesses. It also provides Telkom with a ready-baked Africa strategy, covering more than seven African countries.

Global online retailer Amazon has joined the fray, announcing in August that it would set up an office in Johannesburg for its cloud computing business – Amazon Web Services (AWS) South Africa – with plans to hire as many as 250 people in the country.

At the same time, Vodacom is quietly expanding its enterprise business – which offers various services such as cloud across Africa – eyeing opportunistic growth in Nigeria, Morocco and Zambia.

All large operators in SA, as well as smaller operators Internet Solutions and Vox Telecom, are trying to position themselves as cloud players, says Dobek Pater, MD of Africa Analysis, which specialises in the analysis of telecoms in emerging markets.

But which of the local telcos is best-positioned in the space for cloud services?

Some analysts seem to think Vodacom. However, Telkom and BCX might rattle the cage, warns Farai Mapfinya, portfolio manager and head of equities at JM Busha Asset Managers.

"BCX has been in the cloud space for a while and owns one of the data centres in Midrand, which has a Tier IV certification; we think Telkom is likely to pose a greater threat going forward," says Mapfinya.

Charles Lalieu, managing executive for cloud strategy at BCX, explains: "What sets us apart is that we seamlessly help [clients] transition to the cloud of [their] choice on [their] terms."

Lalieu adds: "Notwithstanding this, BCX has the only two commercial Tier IV carrier-neutral data centres on the continent, which means we are probably best positioned to make use of and sell cloud services locally, or integrate into independent software vendor or customers' data centres; we've already been doing this for some of our enterprise customers.

"As we move to a more automated offering it definitely creates a new way of providing IT services. Is this a new battleground? Possibly," says Lalieu. "The consumption of these solutions relies on IT services and consulting [...] which are all traditional, just evolving to meet the new business models."

Mapfinya agrees that declining revenues in the traditional lines for the telcos make cloud and data the next battleground. But MTN Business says it is not gearing itself for a battle in the cloud space. "Our purpose is not to fight for revenue, but to enable and inspire growth of our customers. What we have built is key to driving down our customers' ICT costs, ensuring that they are flexible and can take their services to market quickly, making them more competitive," says Alpheus Mangale, chief business enterprise officer at MTN SA. He believes MTN is well-positioned in the data space due to its global multiprotocol label switching (MPLS) mechanism that connects customers to over 23 points of presence. "We are in the unique position of having experience and expertise gleaned from operating across diverse markets."

Alpheus Mangale
Chief business enterprise officer at MTN SA

Vodacom Business, which has a global MPLS that has points of presence in 27 countries, argues that developing cloud-based service capabilities is not only about additional revenue streams but "is also about remaining relevant in a fast digitising African economy."

Vodacom and MTN have been investing in their MPLS, which provides flexibility to transport and routes various types of traffic efficiently and quickly. This will likely help operators, as lack of fibre networks may be a barrier for the full deployment of cloud services.

"Telcos are particularly well-positioned to succeed in the market for cloud services given their network capability," says Vuyani Jarana, Vodacom Business chief officer.

Vodacom invests more than R8bn annually in its network infrastructure, says Jarana, but he believes that telcos will need to collaborate and create alliances to address Africa's cloud services needs. ■

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Directors' Dealings

Company	Director	Transaction Date	Transaction Type	Volume	Price (c)	Value (R)	Date Modified
ACSION	P Scholtz	25 August	Sell	96	1027	985	28 August
AFRIMAT	HJE Van Wyk	27 August	Sell	30,000	2000	600,000	28 August
ANSYS	R Grobbelaar	31 August	Purchase	23,913	80	19,130	31 August
ANSYS	R Grobbelaar	31 August	Purchase	1,392	81	1,127	31 August
ANSYS	R Grobbelaar	31 August	Purchase	69,695	82	57,149	31 August
AVENG	MJ Kilbride	20 August	Purchase	10,000	500	50,000	26 August
BLUETEL	S Diamond	31 August	Sell	132,284	1015	1,342,682	31 August
BLUETEL	S Kaplan	31 August	Sell	113,020	1015	1,147,153	31 August
BLUETEL	MS Levy	31 August	Sell	334,474	1015	3,394,911	31 August
BLUETEL	MS Levy	31 August	Sell	334,474	1015	3,394,911	31 August
BLUETEL	MS Levy	31 August	Sell	281,982	1015	2,862,117	31 August
BLUETEL	JS Mthimunye	21 August	Purchase	5,000	936	46,800	26 August
BLUETEL	A Rantao	31 August	Sell	16,363	1015	166,084	31 August
BLUETEL	DA Suntup	31 August	Sell	145,829	1029	1,500,580	31 August
BLUETEL	W van Reenen	31 August	Sell	57,937	1015	588,060	31 August
BSI STEEL	WL Battershill	28 August	Purchase	949,000	47	446,030	31 August
BSI STEEL	WL Battershill	24 August	Purchase	250,000	47	117,500	28 August
BSI STEEL	WL Battershill	25 August	Purchase	405,000	47	190,350	28 August
BSI STEEL	WL Battershill	21 August	Purchase	345,000	47	162,150	25 August
CAPITEC	R Stassen	24 August	Purchase	2,500	43700	1,092,500	26 August
DAWN	LM Alberts	24 August	Purchase	223,000	600	1,338,000	26 August
GOODERSON	CM de Klerk	26 August	Exercise Options	183,000	60	109,800	28 August
GOODERSON	AW Gooderson	26 August	Exercise Options	131,000	60	78,600	28 August
GOODERSON	AW Gooderson	26 August	Exercise Options	145,200	60	87,120	28 August
GOODERSON	R Nannoolal	26 August	Exercise Options	66,000	60	39,600	28 August
INVICTA	CH Wiese	25 August	Purchase	26,102	9000	2,349,180	27 August
INVPROP	SR Leon	25 August	Purchase	300,000	1585	4,755,000	26 August
LODESTONE	JS Cooper	21 August	Purchase	33,043	695	229,648	26 August
LODESTONE	JS Cooper	21 August	Purchase	22,200	700	155,400	26 August
LODESTONE	G Trope	19 August	Purchase	6,375	685	43,668	26 August
LODESTONE	G Trope	20 August	Purchase	2,800	700	19,600	26 August
LODESTONE	G Trope	21 August	Purchase	1,000	700	7,000	26 August
LODESTONE	G Trope	21 August	Purchase	500	715	3,575	26 August
OMNIA	WT Marais	27 August	Sell	5,000	16000	800,000	31 August
OMNIA	WT Marais	27 August	Sell	5,000	16000	800,000	31 August
PERGRIN	P Goetch	25 August	Sell	200,000	2942	5,884,000	27 August
PURPLE	GS Van Dyk	26 August	Exercise Options	1,968,500	27	531,495	31 August
SENTULA	DR Zihlangu	24 August	Purchase	2,000,000	20	400,000	28 August
TRNPACO	L Weinberg	25 August	Purchase	10,000	2000	200,000	27 August
TRNPACO	L Weinberg	25 August	Purchase	10,000	2000	200,000	27 August
TRNPACO	L Weinberg	25 August	Purchase	10,000	2000	200,000	27 August
VODACOM	MS Aziz-Joosub	25 August	Purchase	57,094	13948	7,963,471	27 August
WOOLIES	AT Higginson	27 August	Purchase	1,992	9900	197,208	28 August
WOOLIES	SAR Rose	27 August	Purchase	2,216	9900	219,384	28 August

Dividend ranking

SHARE	FORECAST DPS (c)	FORECAST DY (%)	SHARE	FORECAST DPS (c)	FORECAST DY (%)
PAN AFRICAN	15	9.8	ACCPROP	54	8.2
REBOSIS	109	9.7	VUKILE	148	8.1
EQSTRA	24	8.5	OCTODEC	192	7.9
LEWIS	528	8.4	MTN GROUP	1350	7.6
EMIRA	146	8.3	GLENCORE	233	7.6

TEST YOUR **KNOWLEDGE**

It's time to get those neurons firing with this week's quiz! This week, we've got a copy of Gareth van Onselen's *Holy Cows – The Ambiguities of being South African* up for grabs for one lucky reader. For a chance to win, complete the online version of the quiz on Finweek.com. Good luck!

finweek

1 Name the capital of Northern Ireland.

2 **True or false?**
Port Elizabeth has been named host city for the 2022 Commonwealth Games.

3 Which cereal manufacturer wants to block a merger between rivals Pioneer Foods and FutureLife Health Products?
- Sungrain
- Bokomo
- Kellogg's SA unit

4 In which US city did the rap group NWA originate?

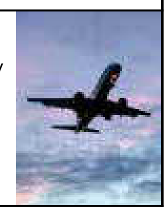
5 **True or false?**
Amazon has announced it wants to open an office in Johannesburg.

6 Who directed the 1996 film *Scream*?

7 **True or false?**
Henry Laas is the CEO of Murray & Roberts.

8 Name the Asian city that was forced to scrap its Olympics 2020 logo amidst plagiarism allegations.

9 Sudanese President Omar Al-Bashir recently travelled overseas for a four-day state visit. Which country did he visit?
- Venezuela
- China
- Egypt

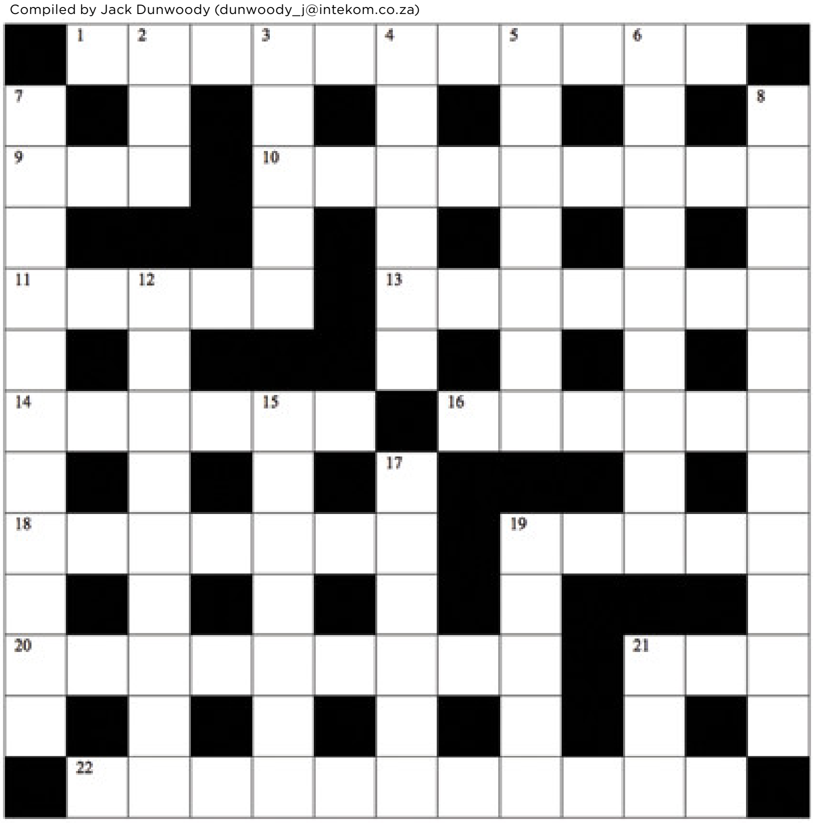


10 **True or false?**
Aaron Motsoaledi is the South African minister of energy.

CRYPTIC CROSSWORD

NO 598 JD

Compiled by Jack Dunwoody (dunwoody_j@intekom.co.za)



ACROSS

1 Go-slow action at the pump? (11)
9 Not quite last \$5 (3)
10 Host in private preserve (9)
11 Support partners in future, perhaps (5)
13 Two-time con in operation (5,2)
14 George III takes ages to shake the cocktail (6)
16 Alternative is to bargain for trouble (6)
18 Floating a street paper (7)
19 Might tenor join in anthem? (5)
20 Fish that may be let out – to a usurer? (4,5)
21 Slip up halfway through the task (3)
22 Permit Royal involvement for now (11)

DOWN

2 Was responsible for Persia outside the capital (3)
3 Press campaign (5)
4 About a hundred coins are circles (6)
5 Omissions excepted, erred badly about animal (3,4)
6 Sudden claim to be hospitalised (9)
7 Sliding door out of order? (3,3,5)
8 They put outside broadcasts in plain English (11)
12 Dark horse on trial (10)
15 Reveals a generous supply (5,2)
17 It's a blow there's no court in Irish ruin (6)
19 The dried grass variety of this may impair one's vision (5)
21 Wing measurement (3)

Solution to Crossword NO 597 JD

ACROSS: 1 Jack; 3 Ephemera; 9 Lyrical; 10 Hurst; 11 Parlour house; 13 Nestle; 15 Argali; 17 Hate campaign; 20 Truro; 21 Clerics; 22 Belittle; 23 Amid

DOWN: 1 Jalapeno; 2 Carer; 4 Paltry; 5 Ethnographer; 6 Eurasia; 7 Ante; 8 School report; 12 Lionised; 14 Seagull; 16 Cancel; 18 Idiom; 19 Stab

ON MARGIN

DONALD SAYS THE DARNDEST THINGS

Whenever Piker gets a bit depressed about the state of South Africa, it helps to know that at least Donald Trump can never be our president. Here are some of his pearls of wisdom, shared on the campaign trial and elsewhere:

"I will be the greatest jobs president that God ever created."

"I think the only difference between me and the other candidates is that I'm more honest and my women are more beautiful."

"The concept of global warming was created by and for the Chinese in order to make US manufacturing non-competitive."

"One of the key problems today is that politics is such a disgrace. Good people don't go into government."

"All of the women on *The Apprentice* flirted with me – consciously or unconsciously. That's to be expected."

"In life you have to rely on the past, and that's called history."

"The beauty of me is that I'm very rich."

"I'm intelligent. Some people would say I'm very, very, very intelligent."

THE RABBI AND THE PRIEST

A priest and a rabbi were eating together when the priest started to tease the rabbi.

"Wow, this ham is really good!" he said, licking his lips. "I know it's against your religion, but when are you going to break down and finally have some?"

After a moment's thought, the rabbi responded with a smile: "At your wedding!"

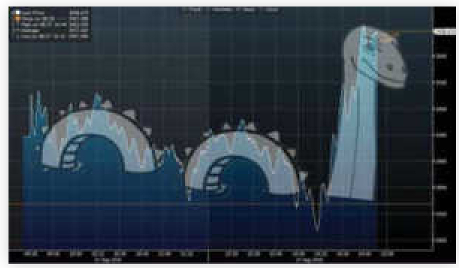
STAR EMPLOYEES

- "Since my last report, this employee has reached rock bottom and has started to dig."
- "He would be out of his depth in a parking lot puddle."
- "This employee should go far, and the sooner he starts, the better."
- "When his IQ reaches 50, he should sell."
- "If you see two people talking and one looks bored, he's the other one."
- "If you gave him a penny for his thoughts, you'd get change."

"... and best of all, if the shareholder meeting gets ugly, I always have my personal escape hatch."

VERBATIM

Karin Richards @Richards_Karin
Astute tech analysis on China market by @DLin71:



Daniel Lin @DLin71
How China's govt is like a teenager:
Very secretive
Smokes too much
Hides mess when guests visit
Brags about stuff that's made up

Tom Eaton @TomEatonSA
Apparently Mumford & Sons are coming to SA. Mumford shouldn't have a problem but I hope he's got original birth certificates for the sons.

Commissar Andrew @mathebulaandrew
To save some costs for the commonwealth games Pres. Zuma's home in Nkandla can be used as an athletes' village, it has a fire pool #DURBAN2022

Keith McLachlan @keithmclachlan
I think some of the South African miners would make more (and more consistent) money if they just rented out their mine shafts for storage.

Market Wisdom @Market_Quotes
"All I ask is a chance to prove that money can't make me happy." – Anonymous

"What's the use of happiness? It can't buy you money."
– Henny Youngman, British-born American comedian and violinist (1906-1998)


CHARLIE BRAVO #445-15